Ronson Europe N.V.

Annual Report
for the year ended
31 December 2017

General Information

Management Board

Nir Netzer, *Chief Executive Officer*
Rami Geris, *Chief Financial Officer*
Andrzej Gutowski, *Sales and Marketing Director*
Erez Tik
Alon Haver

Supervisory Board

Amos Luzon, *Chairman*
Ofer Kadouri
Alon Kadouri
Przemysław Kowalczyk
Piotr Palenik
Shmuel Rofe

Company Secretary

Joanna Adamczyk-Bałabanów

Registered office

Weena 210-212
3012 NJ Rotterdam
The Netherlands

Auditors

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

To our shareholders

The year 2017 was another year characterized by mixed trends in the global economy. The Polish economy continued to generate growth and general stability, despite Eastern Ukraine crisis, not yet come to its end, which unfolded during 2014 and resulted, amongst other matters, in the growing economic isolation of Russia, an important Polish trade partner and in growing immigration from Ukraine to Poland. In 2017, the Polish economy grew by approximately 4.6%, which was higher than in 2016 and higher than the expected 3.6% for 2017. This is the best result since 2011. Unemployment continued to fall to approximately 6.6% with many of the largest Polish cities maintaining rates around 5%. According to many economists, the Polish economy is expected to grow by another 4.4% in 2018.

During 2017, the residential market in Poland continued to demonstrate growth both on the demand and on the supply side. In 2017, construction commenced on 206 thousands new residential units in Poland, representing increase of 19.1% compared to 2016. The total number of building permits granted during 2017 amounted to 250 thousands, which was 17.9% higher than the year before. 2017 has reached historical record of granting building permits.

Highlights for Ronson Europe N.V. ('the Company') during 2017 include:

- the pre-sale of 815 units which was higher than the Company's plans of 766 units for 2017 which represented another very strong year for the Company's sales team;
- delivery of 833 units (including 249 from JV project) to our customers, which result is by over 7% better than the previous record level of 2016;
- completion of construction works on 5 projects/stages resulting in the receipt of permits for occupancy for 736 units (ca. 30% less than during record high 2016);
- commencement of construction of 5 projects and phases (Vitalia II, City Link III, Miasto Moje II, Miasto Marina, Panoramika IV), representing a total of 861 units (a slight decrease comparing to record high result achieved during 2016);
- a further strengthening of Ronson's brand name (as affordable quality) resulting from its overall activities.

During 2017, in an environment of increasing competition and rapid rise in construction costs, the Company sold 815 units with a total value of PLN 313.0 million, while in 2016 the Company sold 821 units with a total value of PLN 365.4 million. Net income for 2017 amounted to PLN 9.5 million, while for 2016 the Company reported a net profit amounting to PLN 64.5 million. It is important to notice that the 2016 financial results are exceptional to some extend due to recognition of the profits from the sale of the Nova Królikarnia project during the fourth quarter of 2016 (instead of recognition of profits from sales of apartments in this project over the next few years).

We continue to believe that in the next couple of years, the residential Polish market holds great promise as for the demand for residential units. Studies continue to suggest that the living standards of the Poles are far below the European average but the increase of the average salaries and the income of small businesses and service providers in a beneficial tax system, which allowed growing sector of private savings, will contribute to fill the gaps in the next few years. According to some estimates, few millions of new units will need to be built during the coming years in order for Poland to reach the EU27 average number of units per 1,000 inhabitants. In addition, the ongoing migration of Polish citizens from rural to urban areas, together with the migration to Poland, mainly of Ukrainians, will create further demand for a new housing stock. With current annual production topping out at approximately 206 thousand units the long-term shortage in the residential market will remain pronounced and should continue to create strong residential development opportunities, that will be better achieved if the government will help by allowing importing growing amount of employees to the construction market.

Letter from the CEO

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

- a strong capital structure allowing the Company to start and finance new projects;
- the ability to secure transactions not just in the ordinary course of business but as the market creates;
- 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.

The advantages mentioned above should give the Company the opportunity to 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, bondholders and banks for their continued support and confidence in our ability to carry out our corporate vision.

Sincerely,
Nir Netzer
CEO

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Supervisory Board report

We are pleased to present the Financial Statements of Ronson Europe N.V. for the financial year 2017, 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 125 to allocate the net profit for the year 2017 amounting to PLN 9,464 thousand to Retained earnings.

Upon the proposal by the Management Board and as approval by the Supervisory Board, the Extraordinary General Meeting of Shareholders held on 1 March 2017 approved an interim dividend payment for the financial year 2016 of PLN 14.8 million equal to PLN 0.09 per share, the interim dividend payment was made on 23 March 2017. In addition, upon the proposal by the Management Board and as approval by the Supervisory Board, the Annual General Meeting of Shareholders held on 30 June 2017 approved a final dividend payment for the financial year 2016 of PLN 16.4 million equal to PLN 0.10 per share, the final dividend payment was made on 10 August 2017.

Supervision

During 2017, there were frequent Supervisory Board and Management Board meetings and conference calls, during which, among other topics, the following items were discussed:

- the Company’s business strategy;
- the transformation of the Company into a European Company (SE);
- the appointment of new Management Board members;
- the dividend policy;
- the Company’s financial position;
- potential sources of long term capital, including issuance of long-term bonds;
- a performance review of the Management Board and evaluation of the Company’s remuneration policy;
- the corporate governance structure of the Company, also in the light of the revised Dutch Corporate Governance Code, effective as of FY 2017;
- risk management and processes undertaken during the year;
- an evaluation and re-appointment of the Company’s auditors; and
- the financial results and other related issues
- functioning of the Management Board.

The Supervisory Board (including its committees) met eleven times. The Board (Audit committee) also met with the external auditors without the presence of the Management Board. All Supervisory Board meetings held in 2017 were attended by the majority of the members of the Supervisory Board. In 2017, a number of changes has occurred in the composition of the Supervisory Board and its committees. To the extent board committees had vacancies as a consequence of these changes, the committees’ role and responsibilities were performed and assumed by the full board.

Audit Committee

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

Remuneration and Nominating Committee

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

Internal Auditor

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

As at the publication date of this Annual Report, the internal auditor was in the process of examining two areas: 1) marketing & sales, and 2) pricing of projects, bids for contractors and budget management.

Financial statements

The Management Board has prepared the Financial Statements for the year ended 31 December 2017. These financial statements were discussed at a Supervisory Board meeting attended by the auditors.

Composition of the Supervisory Board

The Extraordinary General Meeting of Shareholders held on 1 March 2017 approved the appointment of Ms Mikhal Shapira, Mr Ofer Kadouri and Mr Alon Kadouri as members of the Supervisory Board for a term of four years. Ms Mikhal Shapira, Mr Ofer Kadouri and Mr Alon Kadouri replaced Mr Mark Segall, Mr Yair Shilhav and Mr Reuben Sharoni, who stepped down as Supervisory Board directors effective on the day of the Extraordinary General Meeting of Shareholders (1 March 2017).

The Annual General Meeting of Shareholders held on 30 June 2017 approved the appointment of Mr Piotr Palenik as member of the Supervisory Board for a term of four years.

The Extraordinary General Meeting of Shareholders held on 20 November 2017 approved the appointment of Mr Shmuel Rofe as member of the Supervisory Board for a term of four years. Mr Shmuel Rofe replaced Ms Mikhal Shapira who submitted her resignation as member of the Supervisory Board on 13 September 2017 with immediate effect.

Composition of the Management Board

The Extraordinary General Meeting of Shareholders held on 1 March 2017 approved the appointment of Mr Erez Tik and Mr Alon Haver as members of the Management Board and managing directors B for a term of four years. Mr Erez Tik and Mr Alon Haver replaced Mr Erez Yoskovitz, who stepped down as managing director B effective on the day of the Extraordinary General Meeting of Shareholders (1 March 2017) and Mr Roy Vishnovizki, who submitted his resignation as managing director B on 18 January 2017 with immediate effect.

On 27 April 2017, Mr Shraga Weisman submitted his resignation from his function as member of the Management Board and CEO of the Company with effect from that same date. The Annual General Meeting of Shareholders held on 30 June 2017 approved (i) the appointment of Mr Tomasz Łapiński, until then holding a position as member of the Management Board (managing director A) and CFO of the Company, as member of the Management Board (managing director A) and as CEO of the Company for a term of four years and (ii) the appointment of Mr Rami Geris, until then Financial Controller of the Company, as member of the Management Board (managing director A) and as CFO of the Company for a term of four years.

The Extraordinary General Meeting of Shareholders held on 20 November 2017 approved the appointment of Mr Nir Netzer as CEO and member of Management Board (managing director A) for a term of four years. Mr Nir Netzer replaced Mr Tomasz Łapiński who submitted his resignation as CEO and member of the Management Board on 7 September 2017. Mr Tomasz Łapiński stepped down as member of the Management Board effective on the day of the Extraordinary General Meeting of Shareholders (20 November 2017).

7 March 2018
For the Supervisory Board

Amos Luzon,
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 8 December 2016 the Dutch Corporate Governance Code Monitoring Committee published a revised Dutch Code. The most important change of the revised Dutch Code is the central role given to long-term value creation, and the introduction of 'company culture' as a component of effective corporate governance. In addition, the Dutch Code has been updated in a number of other areas. A Dutch government resolution published on 7 September 2017 has given the revised Dutch Code a legal basis and consequently the revised Dutch Code has replaced the 2008 Code.

The Dutch 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.

Dutch listed companies are required to report in 2018 on compliance with the revised Dutch Code in the previous financial year 2017. The Management and Supervisory Boards have assessed the consequences of the revised Dutch Code for the Company and have taken the appropriate measures to duly comply with it during the year ended 31 December 2017.

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 Dutch Code and, if not, to duly explain the reasons why. The Dutch 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 Dutch Code.

The Company acknowledges the importance of good corporate governance. The Management and Supervisory Boards have reviewed the Dutch 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 Dutch Code and any Dutch law corporate governance requirements and improve the Company’s corporate governance features. This is very much a living process. It is the Company’s policy to discuss the topic annually with the shareholders and schedule it for this purpose for the annual general meeting of shareholders each financial year. The topic has been part of the agenda for each general meeting of shareholders since 2007.

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

Diversity

The Act on Management and Supervision (‘Wet Bestuur en Toezicht’) that came into effect on 1 January 2013 and the Act on directors report (‘Besluit inhoud bestuursverslag’) come into effect on 29 August 2017. With these Acts, statutory provisions were introduced to ensure a balanced representation of men and women in management boards and supervisory boards of companies governed by this Act. Balanced representation of men and women is deemed to exist if at least 30% of the seats are filled by men and at least 30% are filled by women.

Ronson Europe N.V. has currently no seats taken by women. Since Ronson Europe N.V. does not comply with the law in this respect, it has looked into the reasons for non-compliance. The Supervisory Board recognizes the benefits of diversity, including gender balance. The Supervisory Board continues to strive for more diversity in both the Supervisory Board and Management Board. 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. 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.

Governance structure (cont'd)

Exceptions to the application of the Dutch Corporate Governance Code:

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

3.1.2.vii

if share options are being awarded, the terms and conditions governing this and the terms and conditions subject to which the share options can be exercised. Share options cannot be exercised during the first three years after they are awarded.

In 2014 and 2016, the Company has granted to selected members of management and key personnel a form of variable remuneration, which are technically not options to acquire shares but the cash value of such variable remuneration is determined by the development of the Company's share price after the date of granting (Phantom Stock). The rationale is to align the interests of management and key personnel with the interests of shareholders. Reference is made to the Remuneration Report (pages 12 to 14). This variable remuneration has been granted unconditionally and independent on the achievement of targets. The Company shall not amend these existing agreements to comply with provision 3.1.2 of the Code (to the extent it would be deemed applicable). Considering that the Company's intention to create a simple alignment of interests of management and shareholders, the Company shall not apply this provision (to the extent deemed applicable) in the current financial year.

2.1.7

i. any one of the criteria referred to in best practice provision 2.1.8, sections i. to v. inclusive should be applicable to at most one supervisory board member;

ii. the total number of supervisory board members to whom the criteria referred to in best practice provision 2.1.8 are applicable should account for less than half of the total number of supervisory board members; and

iii. for each shareholder, or group of affiliated shareholders, who directly or indirectly hold more than ten percent of the shares in the company, there is at most one supervisory board member who can be considered to be affiliated with or representing them as stipulated in best practice provision 2.1.8, sections vi. and vii.

Our Supervisory Board currently consists of six members, of which three members are independent within the meaning of the Dutch Corporate Governance Code. Moreover, the Company's articles of association states that the Supervisory Board shall have at least two independent Supervisory Board directors.

2.1.9

The chairman of the supervisory board should not be a former member of the management board of the company and should be independent within the meaning of best practice provision 2.1.8.

The Chairman of our Supervisory Board, Mr A Luzon, indirectly holds a 66.06% interest in the Company and therefore cannot be regarded independent within the meaning of best practice provision 2.1.8. The Company believes that considering his experience and professional background, Mr Luzon's has the right qualifications to chair the Supervisory Board. Moreover, half of the six members of the Supervisory Board are independent within the meaning of the Dutch Corporate Governance Code.

2.3.1, second part

The terms of reference should also stipulate which transactions require the approval of the supervisory board. The company should draw up regulations governing ownership of, and transactions in, securities by management or supervisory board members, other than securities issued, by the company.

The Company believes that the restrictions under Dutch and EU securities laws 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 the Company's best interest.

Governance structure (cont'd)

Exceptions to the application of the Dutch Corporate Governance Code (cont'd):

4.2.3 second part

Analyst meetings, analyst presentations, presentations to institutional or other investors and press conferences should be announced in advance on the company's website and by means of press releases. Analysts' meetings and presentations to investors should not take place shortly before the publication of the regular financial information. All shareholders should be able to follow these meetings and presentations in real time, by means of webcasting, telephone or otherwise. After the meetings, the presentations should 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 2017, no transactions as referred to in best-practice provisions 2.7.3, 2.7.4 and 2.7.5 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, with exception of the following transactions, to which best-practice provisions 2.7.3, 2.7.4 and 2.7.5 were duly applied:

During the year ended 31 December 2017, the Company entered into an agreement with its major (indirect) shareholder, A. Luzon Group, covering costs of remuneration of two members of the Board of Managing Directors and of Chairman of the Board of Supervisory Directors. For total monthly amount of PLN 70 thousand and covering travel and out of pocket expenses. The Board (non-Luzon members) believe that entering into the such an agreement is in the interest of the Company and that its terms are at arm's length.

Corporate Governance Code in Poland

The principles of corporate governance applicable to the companies listed on the WSE have been set forth in the document called 'Code of Best Practice for WSE Listed Companies' (the 'WSE Corporate Governance Rules'). In 2016 the governing version of the 'Code of Best Practice for WSE Listed Companies' was the one that entered into force on 1 January 2016 (the 'WSE Corporate Governance Rules 2017') which was adopted by the Supervisory Board of the WSE on 13 October 2015 and was entitled 'Best Practices for WSE Listed Companies 2016'. Accordingly, the Company as being listed on the WSE in 2016 was subject to the principles of corporate governance set forth in the WSE Corporate Governance Rules 2016 to the extent permitted under the Dutch law as stated below.

The WSE Corporate Governance Rules apply to companies listed on the WSE, irrespective of whether such companies are incorporated in Poland or outside of Poland. The WSE Corporate Governance Rules 2016 consisted of recommendations relating to best practices for listed companies and best practices provisions relating to management boards, supervisory board members and shareholders. In connection with the WSE Corporate Governance Rules 2016 the companies listed on the WSE are required to disclose in their current reports continuous or incidental non-compliance with the best practices provisions and to publish a detailed statement on any non-compliance with the WSE Corporate Governance Rules 2016 by way of a statement submitted with the company's annual report (the 'Yearly Compliance Statement').

Governance structure (cont'd)

Corporate Governance Code in Poland (cont'd)

The Company intends, to the extent practicable, to comply with all principles of the WSE Corporate Governance Rules. However, certain principles 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 2016 due to incompatibilities with Dutch law, are included in the reports published on an annual basis, which are also available on the Company's website (www.ronson.pl) and are being issued 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.

As stated above, the 'new' corporate governance principles set forth in the WSE Corporate Governance Rules 2016 came into force on 1 January 2016. The Company intends to further comply with its reporting obligations under Polish law in accordance with its previous practice and disclose, as done previously, continuous or incidental non-compliance with the corporate governance principles under the WSE Corporate Governance Rules 2016 by means of current reports (also published on its website (www.ronson.pl)).

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.

Issue of new shares

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

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

Considering the interest in the Company held (indirectly) by its leading shareholder, Amos Luzon Development and Energy Group Ltd., holding (indirectly) 66.06% of the Company's share capital and votes, the change of control over the Company is not possible without the consent and involvement of this leading shareholder. In addition, the leading shareholder is represented both in the Supervisory Board and in the Management Board of the Company.

* The Articles of Association was recently amended on 3 July 2017, in accordance with the resolution of General Meeting adopted on 30 June 2017.

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 six members of the Supervisory Board and 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.

Supervisory Board

The Articles of Association provides that the Company shall have a Supervisory Board consisting of at least three and at most nine supervisory directors 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 (unless the General Meeting explicitly resolves otherwise). 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 Ofer Kadouri (Chairman), Mr Przemysław Kowalczyk and Mr Shmuel Rofe);
- the Remuneration and Nominations Committee (comprising Mr Alon Kadouri (Chairman), Mr Piotr Palenik and Mr Shmuel Rofe).

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

Composition of the Supervisory Board

Amos Luzon (age 55, Israeli citizen, male), Chairman

Mr Amos Luzon was appointed as a member of the Supervisory Board of the Company on 20 April 2016. Mr Luzon is the controlling shareholder of Amos Luzon Development and Energy Group Ltd. (previously U. Dori Group Ltd.) ("A. Luzon Group") as of 14 January 2016, following the acquisition of shares in A Luzon Group from Gazit-Globe Israel Development Ltd. As of 21 January 2016 and until 6 February 2017, Mr Luzon served as the CEO of A. Luzon Group, and as of 16 August 2016 he serves as its director, and as of 6 February 2017 as the Chairman of the Board of Directors of A. Luzon Group. His current term as Supervisory Board Director of the Company expires in 2020. There is no conflict of interest between the Company and other business activities of Mr Luzon.

Alon Kadouri (age 52, Israeli citizen, male)

Mr Alon Kadouri was appointed as a member of the Supervisory Board on 1 March 2017 and is Chairman of the Remuneration and Nominations Committee. Mr Alon Kadouri serves as CPA (Certified Public Accountant) at Ezra Kadouri & Co. CPA since 1988. Since 1998, he is partner and office manager at Ezra Kadouri & Co. CPAs and is in charge in the office of the auditing and the taxes treatment for major projects, real estate groups, government offices, and vast number of other companies. His current term as Supervisory Director expires in 2021. There is no conflict of interest between the Company and other business activities of Mr Alon Kadouri.

Composition of the Supervisory Board (cont'd)

Przemysław Kowalczyk (age 48, Polish citizen, male)

Mr Przemyslaw Kowalczyk was appointed as a member of the Supervisory Board on 30 June 2011 and re-appointed on 24 June 2015. Since 2010, Mr Kowalczyk is an independent business consultant and operates as financial and investment advisor to a range of small and medium enterprises in Poland. From 2002 to 2009, he was member of the management board at Volkswagen Bank Polska Group. Prior to that, from 1994 to 2002, Mr Kowalczyk was active in the banking sector in both Switzerland and Poland, and held various positions including the Head of the Treasury Department with Bankgesellschaft Berlin (Polska) S.A.. His current term as Supervisory Director expires in 2019. There is no conflict of interest between the Company and other business activities of Mr Kowalczyk.

Ofer Kadouri (age 56, Israeli citizen, male)

Mr Ofer Kadouri was appointed as a member of the Supervisory Board on 1 March 2017 and is Chairman of the Audit Committee. Mr Ofer Kadouri serves as CPA (Certified Public Accountant) at Ezra Kadouri & Co. CPA since 1985. Since 1995, he is partner and office manager at Ezra Kadouri & Co. CPA and is in charge within the office of the auditing and the taxes processes of major projects, real estate groups, government offices, and vast number of other companies. His current term as Supervisory Director expires in 2021. There is no conflict of interest between the Company and other business activities of Mr Ofer Kadouri.

Piotr Palenik (age 42, Polish citizen, male)

Mr Piotr Palenik was appointed as a member of the Supervisory Board on 30 June 2017. Since December 2017 Mr Palenik is a member of the supervisory board of Cambridge Chocolate Technologies S.A.. Since 2004 until 2016 Mr Piotr Palenik worked with ING Securities S.A./ING Bank Śląski brokerage house at the research and advisory department as an analyst involved in medium capitalization companies and the financial sector (banks, insurance companies). From 2000 until 2004, he worked in the same capacity with HSBC Securities Polska S.A. in Warsaw, whereas from 1998 until 1999, Mr Palenik worked at Pekao Fundusz Kapitałowy Sp. z o.o. and was responsible for management of cash surplus, minority interests in public companies. His current term as Supervisory Director expires in 2021. There is no conflict of interest between the Company and other business activities of Mr Palenik.

Shmuel Rofe (age 51, Israeli citizen, male)

Mr Shmuel Rofe was appointed as a member of the Supervisory Board on 20 November 2017. Since 2014, Mr Rofe is an entrepreneur and consultant in real estate. From 2009 until 2013 he served as Chief Executive Officer of Ogen Properties Ltd. During the years 2004 through 2009 he was a Chief Financial Officer and a Chief Executive Officer of Gilaz Properties Ltd. From 2001 until 2004 he was a Chief Financial Officer of Zementcal Ltd. From 1999 until 2001 Mr Rofe was controller at Haifa University, Israel. His current term as Supervisory Director expires in 2021. There is no conflict of interest between the Company and other business activities of Mr Rofe.

Management Board

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

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

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

Managing directors A and B

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

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

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

Composition of the Management Board

Nir Netzer (age 47, Israeli citizen, male)

On 20 November 2017, Mr Nir Netzer was appointed as managing director A and member of the Management Board for a term of four years and granted the title 'Chief Executive Officer'.

From 2009 until 2017, Mr Netzer served as CEO of DEN, a privately owned vehicle, which invests, co-founds and provides financial services for local and foreign companies for investing, financing, fund raising and developing projects. In the years 2008 and 2009, Mr Netzer served as CEO of G.H. East Europe Limited, a real estate developer (a partly Cyprus company held by Gamla Group and Harel Insurance Group), in which capacity he was, inter alia, in charge of the entire operations of an international residential developer with offices in Romania and Poland. During the years 2003 through 2007, he was a CFO of Engel East Europe N.V. (EEE), a LSE Dutch based real estate developer working all around CEE, among others, being in charge for fund raising from shareholders, investors and strategic PE partners as well as managing the economic, treasury, tax, reporting and accounting departments. From 1998 until 2003, Mr Netzer worked for PWC Israel as an auditor managing the audit processes for local and international clients. Mr Netzer holds a B.A in Business Management and Accounting and qualified as CPA (Israel). His current term as Managing Director expires in 2021. Mr Netzer does not perform any activities other than for the Company.

Composition of the Management Board (cont'd)

Rami Geris (age 38, Israeli citizen, male)

On 30 June 2017, Mr Geris 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'. Mr Geris is also a member of the management boards of many subsidiaries of the Company.

From 2007 until his appointment as member of the Management Board, Mr Geris worked as Financial Controller for Ronson Europe N.V. and as such he was involved in the preparation of the financial statements, investor presentations, business development, budget controlling and cash flow projections, tax and related issues. From 2006 until 2007, Mr Geris worked at Ernst & Young Auditors in Israel at the assurance department. From 2004 until 2006, Mr Geris worked as an auditor with Zev Salomon & Co.-accountants Israel. Mr Geris graduated in Accountancy at Ramat-Gan College in Israel and is a qualified CPA (Israel). His current term as Managing Director expires in 2021. Mr Geris does not perform any activities other than for the Company.

Andrzej Gutowski (age 48, 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 20 April 2016, he was re-appointed for another term of four years. Mr Gutowski is also a member of the management boards of many subsidiaries of the Company.

Mr Gutowski had been employed by Ronson Development Management Sp. z o.o. as the 'Sales and Marketing Manager'. 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 2020. Mr Gutowski does not perform any activities other than for the Company.

Erez Tik (age 50, Israeli citizen, male)

On 1 March 2017, Mr Erez Tik was appointed as managing director B and member of the Management Board of the Company, for a term of four years. Mr Tik serves as CEO in Amos Luzon Development and Energy Group Ltd. From 2001 until 2016 Mr Tik worked as attorney. Mr Tik was founding partner and managing partner of Tik, Gilad, Keynan Law Firm, a boutique firm specializing in real estate. From 1998 through 2000, Mr Tik was an attorney in the law firm Baratz Gilat Bar Nathan, where he managed the real estate department. His current term as Managing Director of the Company expires in 2021.

Alon Haver (age 45, Israeli citizen, male)

On 1 March 2017, Mr Alon Haver was appointed as managing director B and member of the Management Board of the Company, for a term of four years. Mr Haver is currently serving as the Chief Financial Officer in Amos Luzon Development and Energy Group Ltd. Previously, Mr Haver served as Chief Financial Officer at Afikim Advanced Transportation Ltd. (2014-2016) and at Gamla Harel Eastern Europe Ltd. (2008-2014). From 2007 until 2008, he served as CFO Deputy at Engel East Europe N.V., whereas from 2006 until 2007 Mr Haver served as manager at the M&A department of PwC Finance in Israel. From 2003 until 2006, Mr Haver was CFO at Geographical Tours Company Ltd. His current term as Managing Director of the Company expires in 2021.

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 the Company's shares has been included under Note 25 to the Consolidated Financial Statements.

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

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

c. Duty to report interests in the Company

The Company has been notified regarding shareholders with a substantial holding in accordance with the Act on Financial Supervision (3% or more) in the Company: by Amos Luzon Development and Energy Group Ltd. (indirectly), MetLife Otwarty Fundusz Emerytalny and Nationale Nederlanden Otwarty Fundusz Emerytalny.

d. Special controlling rights

The Company did not issue 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

During the year ended 31 December 2017, the Company entered into an agreement with its major (indirect) shareholder, A. Luzon Group, covering costs of remuneration of two members of the Board of Managing Directors and of Chairman of the Board of Supervisory Directors. For total monthly amount of PLN 70 thousand and covering travel and out of pocket expenses.

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 managing and supervisory 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 or a supervisory director shall require the majority of at least 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.

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

Remuneration Report

Introduction

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

Remuneration Policy

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

Governance

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

Remuneration of the Management Board

Nir Netzer

Mr Nir Nezer, as a member of the Management Board of Ronson Europe N.V., will enter into an employment contract with a subsidiary of the Company (Ronson Development Management Sp. z o.o.). The conditions of the employment contract will include a monthly salary of the PLN equivalent to EUR 2,000, reimbursement of the medical insurance costs and a company car. In addition, he will provide via his consulting company services to Ronson Europe N.V. For these services Mr Netzer’s company will charges Ronson Europe N.V. a monthly fee of EUR 18,000 (EUR 14,000 for the first six months of engagement). Mr Netzer will be entitled to an annual bonus of up to 6 monthly fees and salaries. Mover Mr Netzer the Company is covering expenses related to services provided to the Company, mainly travel and accommodation expenses.

Rami Geris

Mr Rami Geris, 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 5,000, reimbursement of the medical insurance costs and a company car. In addition, he provides through his consulting company services to Ronson Europe N.V. For these services Mr Geris’s company charges Ronson Europe N.V. a monthly fee of EUR 4,700 and PLN 7,500. Mr Geris is also entitled to an annual bonus between 2 to 4 monthly fees.

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 26,000, reimbursement of the medical insurance costs and a company car.

Erez Tik

Mr Erez Tik is not entitled to any remuneration from Ronson Europe N.V. nor from any of the Company’s subsidiaries. His remuneration is covered by the agreement with A. Luzon Group for a total monthly amount of PLN 70 thousand. In addition the Company is covering expenses related to services provided to the Company, travel and accommodation expenses.

Alon Haver

Mr Alon Haver is not entitled to any remuneration from Ronson Europe N.V. nor from any of the Company’s subsidiaries. His remuneration is covered by the agreement with A. Luzon Group for a total monthly amount of PLN 70 thousand. In addition the Company is covering expenses related to services provided to the Company, travel and accommodation expenses.

Remuneration of the Management Board (cont'd)

Other

The remuneration to Mr Shraga Weisman, member of the Management Board until 27 April 2017, related to his services during the year ended 31 December 2017 amounted to PLN 22 thousand (accrued bases), whereas the remuneration to Mr Tomasz Łapiński, member of the Management Board until 20 November 2017, related to his services during the year ended 31 December 2017 amounted to PLN 575 thousand (accrued bases).

Mr Erez Yoskovitz, member of the Management Board until 1 March 2017, and Mr Roy Vishnovizki, member of the Management Board until 18 January 2017, did not receive any remuneration from Ronson Europe N.V. nor from any of the Company's subsidiaries during the year ended 31 December 2017.

Remuneration of the Management Board in 2017

Total compensation of the Members of the Management Board, including bonuses and incentive plan linked to Company's financial performance but not including the company car, amounted to PLN 1,738 thousand. Additionally the benefits from the incentive plan linked to the Company's share price performance allocated to the members of the Management Board amounted to PLN 205 thousand.

Compensation of the members of the Management Board (including bonuses and incentive plan linked to Company's financial performance) amounted to:

- Mr Nir Netzer – PLN 117 thousand (period: 20 November – 31 December 2017),
- Mr Rami Geris – PLN 338 thousand (period: 30 June – 31 December 2017),
- Mr Andrzej Gutowski amounted to PLN 686 thousand, excluding results from the incentive plan linked to the share price performance in the amount of PLN 85 thousand, whereby all option were exercised and paid in March 2017 for the total amount of PLN 329 thousand,
- Mr Shraga Weisman - PLN 22 thousand (period 1 January – 27 April 2017),
- Mr Tomasz Łapiński - PLN 575 thousand, excluding results from the incentive plan linked to the share price performance in the amount of PLN 120 thousand, whereby all option were exercised and paid in March 2017 for the total amount of PLN 463 thousand (period 1 January – 20 November 2017).

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

On 3 February 2014, the Supervisory Board of the Company adopted an incentive plan, addressed to selected key employees, which is based on the price performance of the Company's shares (the "Phantom Stock Plan"). On 24 March 2016, the Company executed annexes to the Phantom Stock Plan as approved by the Remuneration Committee of the Company's Supervisory Board. The Phantom Stock Plan including annexes, which does not assume any new issue of shares and which will not result in any new shares supply is based on the following key assumptions and includes the settlement mechanism as described below:

i. the exercise price of one option under the Phantom Stock Plan is PLN 1.60 which price shall be adjusted by dividends paid out by the Company during vesting and exercise periods. The adjustment mechanism applies only to options that are not exercised as of date of dividend payment (being the basis for adjustment) and applies until the last day of exercise period;

ii. the total number of options is 3,381,250 (which is the equivalent of approximately 1.2% of the Company's total number of shares), and the allocation of options to particular employees was made by way of a separate decision of the remuneration committee of the Remuneration Committee;

iii. benefits were aggregated among the selected employees (of the Company or of its subsidiaries) who joined the Phantom Stock Plan through the end of 2016, of which (a) 40% was awarded as of the date of the decision of the Remuneration Committee approving the Phantom Stock Plan, (b) 20% as of the end of 2014, (c) 20% as of the end of 2015 and (d) 20% as of the end of 2016;

iv. employees participating in the Phantom Stock Plan maintain the right to exercise their options until the end of June 2019, or within 18 months since departure of the employee from the Company, depending which occurs first;

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

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

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

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

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

In February 2014, 2,705,000 options were granted to key employees, including the Management Board members at the time, Mr Łapiński and Mr Gutowski. In March 2016, 676,250 new options added to the plan and were granted to key employees, including the Management Board members at the time, Mr Łapiński and Mr Gutowski. Out of the total 3,381,250 options granted, 1,187,500 options were allocated to Mr Łapiński, and 843,750 options to Mr Gutowski while the remaining 1,350,000 options have been allocated to other key employees of the Company.

During March 2017, all 3,381,250 options were exercised for PLN 0.39 per option, for a total amount of PLN 1,319 thousand (from it PLN 463 thousand paid to Mr Łapiński and PLN 329 thousand to Mr Gutowski). The movement between the estimated liability per 31 December 2016 and the actual payment in March 2017, amounting to PLN 341 thousand (from it PLN 120 thousand allocated to Mr Łapiński and PLN 85 thousand to Mr Gutowski) was recognized in employee benefits expense during the year ended 31 December 2017.

During the year 2017, no new options were granted.

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

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

Based on the Remuneration Committee decision, Mr Tomasz Łapiński (in addition to his remuneration) was entitled to an aggregated payment which would be equivalent of 0.85% of the Company's profit before tax in particular financial year. Mr Andrzej Gutowski is entitled to an aggregated payment which would be equivalent of 0.1% of the net value of the Company's current sales results.

Remuneration of the Supervisory Board

The supervisory directors are entitled to an annual fee of EUR 8,900 plus an amount of EUR 1,500 per board meeting (EUR 750 if attendance is by telephone). The total amount due in respect of Supervisory Board fees during 2017 and 2016 amounted to PLN 336 thousand (EUR 79 thousand) and PLN 339 thousand (EUR 77 thousand), respectively (for additional information see Note 5 of the Company Financial Statements). In addition the Company is covering expenses related to services provided to the Company, travel and accommodation expenses.

Mr Amos Luzon is not entitled to any remuneration from Ronson Europe N.V. nor from any of the Company's subsidiaries. His remuneration is covered by the agreement with A. Luzon Group for a total monthly amount of PLN 70 thousand. In addition the Company is covering expenses related to services provided to the Company, travel and accommodation expenses.

Risk Profile and Risk Management

Risk Profile

Management believes that the residential market as a whole in Poland is not saturated as many 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 construction costs significantly increasing over the course of 2017 and yet are projected to further increase due to lack of employees and the rise in material prices at a level it is hard to expect it will easily be covered by parallel rise of the selling prices. On top of it, the fact that the Polish economy is still experiencing many dynamic changes, including in the regulatory field with majority of the new rules, approved and in pipeline, not in favor of residential developers, 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 and occupation 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. Sometimes 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) as well as the risks of contamination and environmental surveys and its outcomes, 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.

In addition to the above, simultaneously with the new master plans that enter into force in the Polish cities, there are new requirements shifting up the standards of new construction sites (including environmental rules, traffic solutions and infrastructure connections) which may result in both increasing costs of the new projects as well as unplanned delays in the preparation of the new projects.

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 government program, called Mieszkanie dla Młodych (Apartment for the Young) was launched in the beginning of 2014. The Polish government, whilst setting up the parameters of such programs (for instance maximum total area of the apartments qualifying for the program, or maximum allowable price in particular cities), had been of influence on the increasing attractiveness of certain type of apartments and the decreasing for other types, this program had come to its end at the beginning of 2018 and the influence of a new program, “Mieszkanie +”, which the Company consider will have less significant influence on its segments target.

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. The significant change in the market conditions caused from lack of sufficient employees for various works in the construction process and rapid rise in certain raw materials is influencing the costs of the general contractors and sets new level of construction costs reducing the margins and are yet to be covered by the price of the units sold. As a result the general contractors are facing pressures both from the prices they have to pay to their employees and to their sub-contractors and from the ability to actually perform the scope of their work in time. 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 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 especially during the construction phase.

Risk Profile (cont'd)

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.

Simultaneously with increasing demands from developers arranging debt financing of their projects, the banks are more demanding from the customers arranging mortgage loans to finance their purchase of apartments. Starting from 1 of January 2017, the banks required each client to finance at least 20% of the apartment price out of his or her own resources, such a requirements may translate into lower demand for new apartments, which may be a source of additional risk to all residential developers. Additional risk from the financing field is coming for side of the developers, the increase in construction costs together with the high level of land costs and as a result the decreased margins, start raising requirements from financing banks for additional equity and to reflect the risk in the interest rates to secure a construction loan for projects.

For addition informational on financial instruments risks see Note 40 of the Consolidated Financial Statements.

Risk Appetite and Management

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

As a general basic rule, the companies' risk appetite is that we are not interested in acquisition of lands that are not included in the area with valid master development plans or do not have the valid zoning conditions. Land acquisition is always preceded by a very detailed due diligence process (run by the Company's professional employees as well as by external specialists hired by the Company), focusing mainly on zoning conditions and all other issues related to the ability of obtaining the building permit for the particular land/project. Moreover, the Company secures its interests in land purchase contracts demanding mechanisms assuming payments spread over time as well as assuming payment/price corrections.

The Company may be unable to sell the residential units that it builds at attractive prices. The value of a residential property depends to a large extent on its location, architectural design and standard of construction. If the Company misjudges the desirability of a project's location or its design, it may not be able to sell the property at the budgeted price. If the Company is required to reduce the sales price to attract purchasers, the market value of the property could be significantly reduced and the Company's margins could decrease below profitable levels. The failure to sell the residential units at attractive prices or any related units (i.e. commercial units, parking places, storages etc.) may have a material adverse effect on the Company's business, cash flows, financial condition, results of operations or prospects of the Company. The Company's risk appetite is to reduce the above described risk as much as possible. In order to mitigate the market risks involved with the Company's activities, the Company applies relevant internal procedures. Moreover, in response to market instability over the past several years, the Company decided to scale down the size of individual projects offered for sale, by splitting larger residential projects into relatively smaller stages (usually at on average around 150 units for each stage of completion). The Company's plans for 2018 assume the possibility of commencing the construction of three new projects and three further stages of projects that are currently under construction comprising 546 and 305 units respectively, which means that the average scale of each new project, i.e. stage of completion, will be around 142 units. The Company is further mitigating the risks related to the construction process by selecting and hiring experienced construction companies with good reputation and proven track-record in Poland.

The Company believes that even despite recent (in December 2016) transaction with one of its major shareholders, in which the Company purchased nearly 40% of its own shares in purpose of redemption, the level of its indebtedness stays at moderate and relatively safe level in comparison to its peers and will not limit its abilities to successfully raise debt financing in the future needed to support financing of its operations. There can be however no guarantee that such further fundraising or any type of fundraising would be successful. The developments and growth of the business of the Company may be constrained if fundraising is not successful or if funds are raised on unfavorable terms, that can be revealed to the company only after already securing transaction and creating the obligation, which could have a material adverse effect on the business, cash flows, financial condition, result of operations or prospects of the Company.

Risk Appetite and Management (cont'd)

Since 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, as well as liquidity on capital markets.

Furthermore, when the company is assessing acquiring projects of aparthotel or dealing with projects directed to it by the authorities, a relatively similar area to the pure residential projects the company is traditionally entered into, the company will consider it as residential as possible by implementing a similar scheme, to the extent of its control of the processes, of financing, constructing and eventually selling the units in order to take advantage on its vast experience in the residential field.

The Company is pursuing a low risk profile for the capital structure. The Company has a strong capital structure as at 31 December 2017. As a result, The Company is able to start and finance new projects. This strong liquidity position is also associated with our low net indebtedness ratio, which is currently 43% (please refer to note 29 of the Consolidated Financial Statement).

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 in December 2016 a tailored internal risk management and control system. During 2017, the proper operation of the internal risk management and control system has again been monitored. Also, the Company has a set of whistleblower rules in place to ensure that employees of the Company and its subsidiaries have the possibility of reporting alleged irregularities of a general, operational or financial nature. The Company's Management Board believes that its existing risk management measures are sufficient to provide a reasonable degree of certainty as to the absence of material inaccuracies in the financial reporting, losses and fraud. Moreover, as a result of ongoing volatility in the financial markets and the continued unstable situation in the banking sector, the Company's Management pays particular attention to cash and liquidity management, basically securing sufficient amounts of cash deposits with a view to a continuation of the Company's operations in these potentially more turbulent times.

For a description of the Company's financial instruments risk management reference is made to Note 40 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. On 5 February 2018, the Company announced its plan for a transformation of the Company into a European Company (SE) and a subsequent transfer of its registered office to Poland. For further details reference is made to Note 44 of the Consolidated Financial Statements on page 115.

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 2017, following the redemption of 108,349,187 treasury shares held by the Company on 1 March 2017, 66.06% of the outstanding shares are controlled by Amos Luzon Development and Energy Group Ltd. ('A. Luzon Group'). The remaining 33.94% of the outstanding shares are held by Nationale Nederlanden Otwarty Fundusz Emerytalny holding 14.6% and by other investors including Metlife Otwarty Fundusz Emerytalny and Aviva OFE Aviva BZ WBK. 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. For an overview of shares outstanding and major shareholders of the Company reference is made to page 40.

On 7 March 2018, the market price was PLN 1.41 per share giving the Company a market capitalization of PLN 231.3 million.

Company overview

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

The Company aims to maximize value for its shareholders by a selective geographical expansion in Poland as well as by creation of a portfolio of real estate development properties. Management believes the Company has positioned itself strongly to navigate the volatile economic environment the Company has found itself in over the past several years. On the one hand, the Polish economy appears to remain stable, which potentially bodes well for the Company's prospects. On the other hand, the tenuous European recovery, exacerbated in the last year by Middle East refugee crisis and results of the EU referendum in the United Kingdom which will lead to exit of the UK from European Union, 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 and (iii) maintaining its conservative financial policy.

As at 31 December 2017, the Group has 976 units available for sale in fourteen locations, of which 803 units are available for sale in seven ongoing projects as at 31 December 2017, and the remaining 173 units are in completed projects. The seven ongoing projects comprise a total of 1,401 units, with a total area of 71,300 m^2. The construction of 688 units with a total area of 35,900 m^2 is expected to be completed during 2018.

In addition, the Group has a pipeline of 13 projects in different stages of preparation, representing approximately 3,655 units with a total area of approximately 242,900 m^2 for future development in Warsaw, Poznań, Wrocław and Szczecin. During 2018 the Group is considering commencement of another three stages of the currently running projects comprising 305 units with a total area of 19,300 m^2 and three new projects comprising 546 units with a total area of 28,000 m^2 (in total 851 units with a total area of 47,300 m^2). Moreover the Group is actively seeking for new lands for residential projects. After signing preliminary agreement related to the project in Warsaw (Ursus district) dedicated for 1,600 apartments, the Company already prepares commencement of this project during 2018.

Company overview (cont'd)

During year ended 31 December 2017, the Company realized sales of 815 units with the total value PLN 313.0 million (in addition the Group sold 50 units with the total value of 38.3 million, in a project that is being managed by the Group) which compares to sales of 821 units with a total value of PLN 365.4 million during the year ended 31 December 2016.

Dividend policy

On 1 March 2017, during an extra-ordinary General Meeting of Shareholders, the shareholders of the Company accepted a distribution of an interim dividend for the financial year 2016 as proposed by the Board of Managing Directors and the Board of Supervisory Directors. Interim dividend in a total amount of PLN 14,760,974 or PLN 0.09 per ordinary share, was paid on 23 March 2017.

In addition, on 30 June 2017, during the Annual General Meeting of Shareholders, the shareholders of the Company accepted a distribution of a final dividend for the financial year 2016 as proposed by the Board of Managing Directors and the Board of Supervisory Directors. The final dividend in the amount of PLN 16,401,081 or PLN 0.10 per ordinary share, was paid on 10 August 2017.

Market overview

The Polish economy has proven to be strong together with the general paucity of dwellings in Poland creates, what management believes to be solid long term prospects for further development of the residential real estate market. Management believes the Company is well positioned to adapt to changing market conditions. The Company's sales results during the past years seem to confirm that the Company has consistently adapted appropriately to volatile market conditions.

As general, the activities of residential developers from year 2013, when the development of only 128,000 units was commenced in the Polish market, started improving and since 2014 the scale of residential activities has been constantly increasing. The number of units commenced to be developed during 2017 reached nearly 206,000 which was 19% higher than in 2016. It is important to note that the number of newly opened projects built by developers (nearly 105,400) increased by 23% during 2017 after a 1% decrease during 2016.

Meanwhile, a number of external factors have contributed to recent market growth. First, a governmental program that subsidized young couples purchasing their first apartments, called "Rodzina na Swoim" ("Family on its own") that expired at the end of 2012 was replaced with a new governmental program called "Mieszkanie dla Młodych" (hereinafter "MDM") that came into effect in the beginning of 2014 and supports the residential market in those cities where the maximum price of apartment qualifying to subsidies is close to the market price. Second, in the last few years, the National Bank of Poland has kept interest rates at record low levels (2.5% from July 2013 through September 2014 and 2.0% from October 2014 until March 2015, when the rate was further decreased to 1.5%). These historically low interest rates since 2013 positively impacted the residential market for two reasons. First, mortgage loans became more affordable to potential residential purchasers and second, more customers are purchasing apartments for cash, as they consider real estate investment as an attractive alternative to the very low interest earned on banking deposits.

Taking into consideration all these factors, the increase in demand for residential units noted in the past four years has caught up with supply. The improving market environment has encouraged developers to expand their residential development activities. According to REAS (real estate agency analyzing the Polish residential market) 67,300 new apartments in six major Polish metropolitan areas, including Warsaw, were added on offer by developers during 2017 which compares to total sales of 72,700 apartments during that year. For the first time since 2013, supply was not able to meet the growing demand for housing, as the result of with number of units on offer significantly decreased. The number of apartments offered by developers decreased as end of 2017 to nearly 48,200 units, which corresponded to 66% of the annual sales during the year.

Market overview (cont'd)

Warsaw continued to be the most significant market in Poland in 2017 with over 28,500 units sold in this period. The number of apartments sold in Warsaw was by nearly 19% higher than during 2016.

Despite sales results having reached relatively high levels compared with previous years, such robust sales have almost not translated into any increase in the overall price of apartments as the concomitant increase in development activity has resulted in supply balancing with demand. Moreover, the price limits imposed by the governmental program MDM played a role as an incentive to many developers to shape their development activity to offer apartments at relatively low prices to allow purchasers to qualify for the government subsidies.

The year 2017 confirmed continuation of the trends observed for 2015 and 2016. According to REAS the pre-sales volume at six major Polish metropolitan areas amounted to 72,700 units during the year 2017, which was by 17% higher y/y. The number of units added on offer during the year 2017 was 67,300 which resulted in the overall offer of developers slightly diminishing. The total number of units offered for sale in the six largest Polish cities amounted to 48,200 at end of December 2017 compared to 52,700 at end of 2016. This confirms that developers are adjusting their activities to market dynamics and are expanding their supply on a reasonable basis.

An anticipated continuation of stability of interest rates at relatively low levels in the next quarters, as well as the continuation in Poland of a stable economy and growing salaries may be still supportive to the positive situation in residential markets, even though the government is not going to support buyers of first apartments in such way as it used to through programs such as Rodzina na Swoim or MDM (which is to expire in 2018). The recently announced new program "Mieszkanie Plus" will be addressed to those young people, who do not qualify for mortgage loans due to insufficient income. Moreover, new residential projects are planned by the government (at least in initial phase of this program) in the medium sized and small towns, i.e. in those markets which are not interesting to the largest residential developers. It seems therefore that on the one hand the new governmental program will not support those individuals interested in buying their first apartment in leading Polish agglomerations, but on the other hand shall not be a source (especially during the coming few years) of direct competition for the leading market players.

Another source of potential uncertainty in the residential real estate market is related to other plans of the Polish government with respect to contemplated new regulations potentially affecting, among others, construction legislation and regulations related to perpetual usufruct. Despite announced good faith aimed at increased simplicity of the construction process in Poland, the introduction of new regulations may result – especially temporary – in turbulences and delays in commencing new projects by all developers. Other important contribution expected from the government to the sector of the construction is to fill in the gap and allow import and allocate human resource to back the immediate needs of the general contractors, at this stage no material steps have been done by the relevant offices to this direction.

Notwithstanding the above, Management continues to believe that considering all the above factors, it is likely that a continuous strengthening in the Polish residential market is foreseen for at least the following several quarters.

Business highlights during the year ended 31 December 2017

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 2017:

Project name	Location	Number of units	Area of units (m²)
Vitalia I	Wrocław	139	7,200
City Link I (1)	Warsaw	322	14,700
Młody Grunwald III	Poznań	108	7,100
Chilli IV	Poznań	45	2,900
Panoramika III	Szczecin	122	5,800
Total		**736**	**37,700**

(1) The project presented in the Consolidated Financial Statements under investment in joint ventures; the Company's share is 50%.

For additional information see section 'B. Results breakdown by project' 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 2017 amounted to PLN 231.7 million, whereas cost of sales before write-down adjustment amounted to PLN 190.3 million and after write-down adjustment amounted to PLN 193.7 million, which resulted in a gross profit before write-down adjustment amounting to PLN 41.4 million (and a gross margin of 17.9%) and after write-down adjustment amounting to PLN 38.1 million (and a gross margin of 16.4%). Total economical revenue, whereby results from joint ventures are presented on a fully consolidated basis, amounted to PLN 326.7 million, with cost of sales amounting to PLN 259.9 million, which resulted in a gross profit amounting to PLN 66.7 million (and a gross margin of 20.4%).

The following table specifies revenue, cost of sales, gross profit and gross margin during the year ended 31 December 2017 on a project by project basis:

	Information on the delivered units		Revenue (1)		Cost of sales (2)		Gross profit	Gross margin
Project	**Number of units**	**Area of units (m²)**	**PLN thousands**	**%**	**PLN thousands**	**%**	**PLN thousands**	**%**
Espresso II & III	147	8,092	57,291	24.7%	47,327	24.9%	9,964	17.4%
Kamienica Jeżyce	170	8,713	51,553	22.2%	48,287	25.4%	3,266	6.3%
Moko	52	5,199	41,061	17.7%	28,111	14.8%	12,950	31.5%
Vitalia I	111	5,405	29,375	12.7%	23,102	12.1%	6,273	21.4%
Młody Grunwald I & II	16	1,311	7,604	3.3%	7,750	4.1%	(146)	-1.9%
Młody Grunwald III	36	1,976	11,655	5.0%	11,689	6.1%	(34)	-0.3%
Panoramika II	13	960	4,319	1.9%	4,250	2.2%	69	1.6%
Chilli IV	5	316	1,269	0.5%	1,173	0.6%	96	7.6%
Impressio	7	468	2,909	1.3%	3,022	1.6%	(113)	-3.9%
Sakura	13	998	6,737	2.9%	6,295	3.3%	442	6.6%
Tamka	3	292	4,236	1.8%	2,959	1.6%	1,277	30.1%
Verdis	4	251	1,950	0.8%	1,549	0.8%	401	20.6%
Naturalis I, II & III	5	401	2,058	0.9%	1,920	1.0%	138	6.7%
Sales of land	n.a	n.a	1,600	0.7%	1,221	0.6%	379	23.7%
Other (5)	2	284	8,127	3.6%	1,697	0.9%	6,430	n.a
Total / Average	**584**	**34,666**	**231,744**	**100.0%**	**190,352**	**100.0%**	**41,392**	**17.9%**
Write-down adjustment	n.a.	n.a.	n.a.		3,314		(3,314)	n.a
Results after write-down adjustment	**584**	**34,666**	**231,744**		**193,666**		**38,078**	**16.4%**
City Link I (3)	249	10,693	94,916		66,266		28,650	30.2%
Economic results (4)	**833**	**45,359**	**326,660**		**259,932**		**66,728**	**20.4%**

(1) 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.

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

(3) The project presented in the Consolidated Financial Statements under investment in joint ventures; the Company's share is 50%.

(4) Under the assumption that the results from joint ventures are presented on a fully consolidated basis (100%).

(5) Other revenues are mainly associated with fee income for management services provided to joint ventures and to Nova Krolikarnia project and with rental revenues, as well as with sales of parking places and storages in other projects that were completed in previous years and 2 units delivered in Constans and Espresso I project.

Business highlights during the year ended 31 December 2017 (cont'd)

B. Results breakdown by project (cont'd)

Espresso II & III

The construction of the second and third stage of Espresso project was completed in May 2016 and December 2016, respectively. The second and third stage of this project were developed on a land strip located in Wola district in Warsaw at Jana Kazimierza Street. The Espresso II project comprises 141 apartments and 10 commercial units and an aggregate floor space of 7,600 m^2. The Espresso III project comprises 147 apartments and 8 commercial units and an aggregate floor space of 8,500 m^2.

Kamienica Jeżyce

The construction of the last stage of Kamienica Jeżyce project was completed in December 2016. The project was developed on a land strip located in Jeżyce district in Poznań at Kościelna Street. The project comprises 290 apartments and 5 commercial units with an aggregate floor space of 15,200 m^2.

Moko

The construction of the last stage of Moko project was completed in October 2016. The project was developed on a land strip located in Mokotów district in Warsaw at Magazynowa Street. The project comprises 326 apartments and 19 commercial units and an aggregate floor space of 23,700 m^2.

Vitalia I

The construction of the first stage of the Vitalia project was completed in September 2017. The project was developed on a land strip located in Krzyki district in Wrocław at Jutrzenki Street. The first stage of this project comprises 139 apartments with an aggregate floor space of 7,200 m^2.

Młody Grunwald I, II & III

The construction of the Młody Grunwald I, II and III projects was completed in May 2014, November 2015 and October 2017, respectively. The Młody Grunwald I, II and III projects were developed on a land strip located in Grunwald district in Poznań at Jeleniogórska Street. The Młody Grunwald I project comprises 136 apartments and 12 commercial units and an aggregate floor space of 8,500 m^2. The Młody Grunwald II project comprises 132 apartments and 5 commercial units and an aggregate floor space of 8,200 m^2. The Młody Grunwald III project comprises 104 apartments and 4 commercial units and an aggregate floor space of 7,100 m^2.

Panoramika II

The construction of the second stage of the Panoramika project was completed in July 2016. The second stage of this project was developed on a part of land strip located in Szczecin at Duńska Street, and is a continuation of the Panoramika I project. The project comprises 107 apartments and an aggregate floor space of 5,900 m^2.

Chilli IV

The construction of the fourth stage of the Chilli project was completed in December 2017. The fourth stage of the Chilli project was developed on a part of land strip located in Tulce near Poznań, and is a continuation of the Chilli I, II and III projects, which were completed in 2012, 2013 and 2014, respectively. The fourth stage of this project comprises 45 apartments units with an aggregate floor space of 2,900 m^2.

Impressio

The construction of the last stage of Impressio project was completed in July 2015. The project was developed on a land strip located in the Grabiszyn district in Wrocław at Rymarska Street. The project comprises 202 apartments and 4 commercial units and an aggregate floor space of 12,900 m^2.

Sakura

The construction of the last stage of Sakura project was completed in July 2015. The project was developed on a land strip located in Warsaw at Kłobucka Street. The project comprises 488 apartments and 27 commercial units and an aggregate floor space of 30,300 m^2.

Business highlights during the year ended 31 December 2017 (cont'd)

B. Results breakdown by project (cont'd)

Tamka

The construction of the Tamka project was completed in September 2015. The Tamka project was developed on a land strip located in the Śródmieście district in Warsaw at Tamka Street (Warsaw city center). The Tamka project comprises 60 apartments and 5 commercial units with an aggregate floor space of 5,500 m^2.

Verdis

The construction of the last stage of Verdis project was completed in October 2015. The project was developed on a land strip located in the Wola district in Warsaw at Sowińskiego Street. The project comprises 418 apartments and 23 commercial units and an aggregate floor space of 26,100 m^2.

Naturalis I, II & III

The construction of the Naturalis I, II and III projects was completed in December 2012, August 2012 and August 2013, respectively. The Naturalis I, II and III projects were developed on a land strip located in Łomianki near Warsaw. The Naturalis I, II and III projects comprise 172 apartments and an aggregate floor space of 9,700 m^2.

Sales of land

On 19 July 2017, the Company sold to a third party (the right of perpetual usufruct) of real properties located in Warsaw.

Other

Other revenues are mainly associated with fee income for management services provided to joint ventures and to Nova Królikarnia project and with rental revenues, as well as with sales of parking places and storages in other projects that were completed in previous years and 2 units delivered in Constans and Espresso I project.

City Link I

The construction of the first stage of the City Link project was completed in September 2017. The project was developed on part of a land strip located in the Wola district in Warsaw at Skierniewicka street. The first stage of this project comprises 301 apartments and 21 commercial units with an aggregate floor space of 14,700 m^2. The project presented in the Consolidated Financial Statements under investment in joint ventures; the Company's share is 50%.

Business highlights during the year ended 31 December 2017 (cont'd)

C. Units sold during the year

The table below presents information on the total number of 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 2017:

Project name	Location	Units sold until 31 December 2016	Units sold during the year ended 31 December 2017	Units for sale as at 31 December 2017	Total
Espresso II & III (1)	Warsaw	284	17	4	305
Espresso IV (2)	Warsaw	64	80	2	146
Miasto Moje I (2)	Warsaw	39	115	51	205
Miasto Moje II (2)	Warsaw	-	8	140	148
Młody Grunwald I & II (1)	Poznań	251	18	16	285
Młody Grunwald III (1)	Poznań	33	46	29	108
City Link III (2)/(4)	Warsaw	-	91	277	368
Miasto Marina (2)	Wrocław	-	15	136	151
Vitalia I (1)	Wrocław	29	99	11	139
Vitalia II (2)	Wrocław	-	6	77	83
Chilli IV (1)	Poznań	6	10	29	45
Panoramika II (1)	Szczecin	90	10	7	107
Panoramika III (1)	Szczecin	14	84	24	122
Panoramika IV (2)	Szczecin	-	2	109	111
Moko (1)	Warsaw	276	41	28	345
Kamienica Jeżyce (1)	Poznań	274	19	2	295
Tamka (1)	Warsaw	64	1	-	65
Verdis (1)	Warsaw	430	2	9	441
Sakura (1)	Warsaw	498	12	5	515
Naturalis I, II & III (1)	Warsaw	171	1	-	172
Impressio (1)	Wrocław	204	2	1	207
Other (old) projects		1	1	2	4
Total excluding JV		**2,728**	**680**	**959**	**4,367**
City Link I (1)/(3)	Warsaw	264	52	6	322
City Link II (2)/(3)	Warsaw	95	83	11	189
Total including JV		**3,087**	**815**	**976**	**4,878**

(1) For information on the completed projects see "Business highlights during the year ended 31 December 2017 – B. Results breakdown by project" (pages 21 to 23).

(2) For information on current projects under construction, see "Outlook for 2018 – B. Current projects under construction" (pages 35 to 37).

(3) The project presented in the Consolidated Financial Statements under investment in joint ventures; the Company's share is 50%.

(4) Previously named Skierniewicka bis, the Company's share in the project is 100%.

Business highlights during the year ended 31 December 2017 (cont'd)

C. Units sold during the year (cont'd)

The table below presents further information on the units sold (i.e. total number of units for which the Company signed the preliminary sale agreements with the clients), including net saleable area (in m^2) of the units sold and net value (exclusive of VAT) of the preliminary sales agreements (including also parking places and storages) executed by the Company, during the year ended 31 December 2017:

		Sold during the year ended 31 December 2017		
Project name	**Location**	**Number of units**	**Net saleable area (m^2)**	**Value of the preliminary sales agreements** *(in PLN thousands)*
Espresso II & III [(1)]	Warsaw	17	1,308	9,392
Espresso IV [(2)]	Warsaw	80	4,708	34,282
Miasto Moje I [(2)]	Warsaw	115	5,821	33,365
Miasto Moje II [(2)]	Warsaw	8	636	3,618
Młody Grunwald I & II [(1)]	Poznań	18	1,540	8,819
Młody Grunwald III [(1)]	Poznań	46	2,529	14,994
City Link III [(2)/(4)]	Warsaw	91	3,845	37,032
Miasto Marina [(2)]	Wrocław	15	562	4,255
Vitalia I [(1)]	Wrocław	99	4,741	25,925
Vitalia II [(2)]	Wrocław	6	324	1,840
Chilli IV [(1)]	Poznań	10	610	2,416
Panoramika II [(1)]	Szczecin	10	757	3,391
Panoramika III [(1)]	Szczecin	84	3,763	17,348
Panoramika IV [(2)]	Szczecin	2	104	531
Moko [(1)]	Warsaw	41	4,503	35,856
Kamienica Jeżyce [(1)]	Poznań	19	1,535	8,761
Tamka [(1)]	Warsaw	1	60	983
Verdis [(1)]	Warsaw	2	137	1,136
Sakura [(1)]	Warsaw	12	923	6,274
Naturalis I, II & III [(1)]	Warsaw	1	80	666
Impressio [(1)]	Wrocław	2	237	1,643
Other (old) projects		1	70	272
Total excluding JV		**680**	**38,793**	**252,799**
City Link I [(1)/(3)]	Warsaw	52	2,524	23,200
City Link II [(2)/(3)]	Warsaw	83	3,908	36,991
Total including JV		**815**	**45,225**	**312,990**

(1) For information on the completed projects see "Business highlights during the year ended 31 December 2017 – B. Results breakdown by project" (pages 21 to 23).

(2) For information on current projects under construction, see "Outlook for 2018– B. Current projects under construction" (pages 35 to 37).

(3) The project presented in the Consolidated Financial Statements under investment in joint ventures; the Company's share is 50%.

(4) Previously named Skierniewicka bis; the Company's share in the project is 100%.

Business highlights during the year ended 31 December 2017 (cont'd)

D. Commencements of new projects

The table below presents information on the projects for which the construction and/or sales process commenced during the year ended 31 December 2017:

Project name	Location	Number of units	Area of units (m2)
City Link III [(1)]	Warsaw	368	18,700
Miasto Marina	Wrocław	151	6,200
Miasto Moje II	Warsaw	148	8,100
Vitalia II	Wrocław	83	4,700
Panoramika IV	Szczecin	111	5,800
Total		**861**	**43,500**

(1) Previously named Skierniewicka bis, the Company's share in the project is 100%.

For information on current projects under construction, see "Outlook for 2018 – B. Current projects under construction" (pages 35 to 37).

E. Land purchase

In January 2017 and in February 2018, the Company entered into conditional sale agreements concerning the acquisition of real properties located in Warsaw, Ursus district, and into certain cooperation agreements (hereinafter "Properties"). The Properties are covered by a local zoning plan which allows for the development of multi-family housing projects of approximately 1,600 apartments. The total sales price for the acquisition of the Properties plus the value of the work which must be performed to allow the Company to carry out the housing projects (such work being the responsibility of the sellers) has been agreed at the amount of PLN 81.75 million plus applicable VAT (from the agreed price an amount of PLN 79.0 million plus applicable VAT has been paid until 31 December 2017).

The final agreements regarding the transfer of part of the Properties to the Company expected to be concluded during March 2018, the remaining part expected to be transferred by December 2019. That will allow the Company to commence the first stage of the project during 2018 (for additional information see page 38).

Overview of results

The net profit attributable to the equity holders of the parent company for the year ended 31 December 2017 was PLN 9,464 thousand and can be summarized as follows:

	For year ended 31 December	
	2017	2016
	PLN (thousands, except per share data)	
Revenue	231,744	484,762
Cost of sales	(193,666)	(366,072)
Gross profit	**38,078**	**118,690**
Selling and marketing expenses	(5,684)	(8,083)
Administrative expenses	(19,335)	(22,197)
Share of profit/(loss) from joint ventures	11,311	(1,380)
Other expense	(4,427)	(3,354)
Other income	812	876
Result from operating activities	**20,755**	**84,552**
Finance income	859	1,900
Finance expense	(7,724)	(8,857)
Net finance income/(expense)	**(6,865)**	**(6,957)**
Profit/(loss) before taxation	**13,890**	**77,595**
Income tax benefit/(expense)	(2,593)	(12,497)
Net profit/(loss) for the year before non-controlling interests	**11,297**	**65,098**
Non-controlling interests	(1,833)	(567)
Net profit/(loss) for the year attributable to the equity holders of the parent	**9,464**	**64,531**
Net earnings per share attributable to the equity holders of the parent (basic and diluted)	**0.058**	**0.239**

Revenue

Revenue decreased by PLN 253.1 million (52.2%) from PLN 484.8 million during the year ended 31 December 2016 to PLN 231.7 million during the year ended 31 December 2017, which is primarily explained by the sale (in a single transaction) of the Nova Królikarnia project during the year ended 31 December 2016 with a revenue of PLN 175.1 million.

Revenue excluding the sale of the Nova Królikarnia project, decreased by PLN 77.9 million (25.2%) from PLN 309.6 million during the year ended 31 December 2016 to PLN 231.7 million during the year ended 31 December 2017, which is primarily explained by a decrease in apartments delivered to customers in terms of area size (in m^2).

Overview of results (cont'd)

Cost of sales

Cost of sales decreased by PLN 172.4 million (47.1%) from PLN 366.1 million during the year ended 31 December 2016 to PLN 193.7 million during the year ended 31 December 2017, which is primarily explained by the sale of the Nova Królikarnia project during 2016 with a cost of sale amounting to PLN 117.9 million.

Cost of sales excluding the sale of the Nova Królikarnia project during 2016 and before the write-down adjustment decreased by PLN 55.6 million (22.6%) from PLN 246.0 million during the year ended 31 December 2016 to PLN 190.4 million during the year ended 31 December 2017, which is primarily explained by a decrease in apartments delivered to the customers in terms of area size (in m^2).

Gross margin

The gross margin during the year ended 31 December 2017 before write-down adjustment was 17.9% which compares to a gross margin before write-down adjustment during the year ended 31 December 2016 of 20.6%.

Selling and marketing expenses

Selling and marketing expenses decreased by PLN 2.4 million (29.7%) from PLN 8.1 million during the year ended 31 December 2016 to PLN 5.7 million during the year ended 31 December 2017, which is primarily explained by the fact that during the year ended 31 December 2017 the Company commenced the construction of 5 projects/stages with 861 units compared to 7 projects/stages with 921 units that were commenced during the year ended 31 December 2016, as well as by a decrease in fees for real-estate agencies.

Administrative expenses

Administrative expenses decreased by PLN 2.9 million (12.9%) from PLN 22.2 million during the year ended 31 December 2016 to PLN 19.3 million during the year ended 31 December 2017. The decrease is primarily explained by a decrease in the Management Board bonus which is calculated in proportion to the profit before tax and a decrease in personnel expenses. The decrease was offset in part by increase in costs of consulting services related to various restructuring initiatives of the Group and the management fees to A. Luzon Group.

Share of profit/(loss) from joint ventures

Share of profit/(loss) from joint ventures comprise the Company's 50% interest in the joint ventures companies Ronson IS sp. z o.o. and in Ronson IS Sp. z o.o. Sp.k (hereinafter "JV") company running the first two stages of project City Link in Warsaw.

During the year ended 31 December 2017 the net profit of the JV amounted to PLN 21,994 thousand (of which 50% amounting to PLN 10,997 thousand was allocated to the Company, before adjusting intercompany interest that amounted to PLN 314 thousand).

In September 2017, the JV completed first stage of project City Link and commenced deliveries of units to customers (249 units) which allowed for recognition of gross profit amounting to PLN 28.7 million during 2017, which was offset in part by the management fee paid to the Company (amounting to PLN 4.8 million).

Other expenses

Other expenses increased by PLN 1.1 million (32.0%) from PLN 3.3 million during the year ended 31 December 2016 to PLN 4.4 million during the year ended 31 December 2017, which is primarily explained by increase in maintenance expenses for unsold units.

Result from operating activities

As a result of the factors described above, the Company's operating result decreased by PLN 63.8 million, from an operating profit of PLN 84.6 million during the year ended 31 December 2016 to an operating profit of PLN 20.8 million during the year ended 31 December 2017.

Overview of results (cont'd)

Net finance income/(expense)

Finance income/(expense) 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/(expense) not capitalized is 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 2017		
	PLN (thousands)		
	Total amount	Amount capitalized	Recognized as profit or loss
Finance income	859	-	859
Finance expense	(14,911)	7,187	(7,724)
Net finance (expense)/income	**(14,052)**	**7,187**	**(6,865)**

	For the year ended 31 December 2016		
	PLN (thousands)		
	Total amount	Amount capitalized	Recognized as profit or loss
Finance income	1,900	-	1,900
Finance expense	(15,888)	7,031	(8,857)
Net finance (expense)/income	**(13,988)**	**7,031**	**(6,957)**

Finance expenses before capitalization decreased by PLN 1.0 million (6.1%) from PLN 15.9 million during the year ended 31 December 2016 to PLN 14.9 million during the year ended 31 December 2017. The decrease is primarily explained by the decrease in the average interest margin on bonds issued, as well as a decrease in commissions and fees for issuance of new bonds and bank loans.

Income tax benefit/(expense)

During the year ended 31 December 2017, the income tax expense amounted to PLN 2.6 million, in comparison to the income tax expense of PLN 12.5 million for the year ended 31 December 2016.

Non-controlling interests

Non-controlling interests comprise the share of minority shareholders in profit and losses from subsidiary that is not 100% owned by the Company and controlled by the Company (presented on a fully consolidated basis). During the year ended 31 December 2017, the minority shareholders share in the profit amounted to PLN 1,833 thousand (negatively impacting equity attributable to the holders of the parent), as compared to share in profit amounting to PLN 567 thousand (negative impact) during the year ended 31 December 2016. The change in the non-controlling interest is explained by the revenue and income recognized from the Espresso III project that was completed in December 2016.

Selected financial data

PLN/EUR	Exchange rate of Polish Zloty versus the Euro: Average exchange rate	Minimum exchange rate	Maximum exchange rate	Year end exchange rate
2017 (12 months)	**4.258**	**4.171**	**4.416**	**4.171**
2016 (12 months)	4.364	4.236	4.504	4.424

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			
	2017	2016	2017	2016
Revenue	**54,426**	111,082	**231,744**	484,762
Gross profit	**8,943**	27,198	**38,078**	118,690
Profit/(loss) before taxation	**3,262**	17,781	**13,890**	77,595
Net profit/(loss) for the year attributable to the equity holders of the parent	**2,223**	14,787	**9,464**	64,531
Cash flows from/(used in) operating activities	**6,438**	3,511	**27,411**	15,324
Cash flows from/(used in) investing activities	**3,823**	719	**16,279**	3,137
Cash flows from/(used in) financing activities	**(11,246)**	(11,214)	**(47,886)**	(48,936)
Increase/(decrease) in cash and cash equivalents	**(985)**	(6,983)	**(4,196)**	(30,475)
Inventory	**122,776**	129,769	**512,098**	574,098
Total assets	**169,216**	168,040	**705,799**	743,411
Advances received	**24,513**	22,741	**102,244**	100,607
Long term liabilities	**41,745**	34,261	**174,120**	151,571
Short term liabilities (including advances received)	**45,473**	51,981	**189,667**	229,964
Equity attributable to the equity holders of the parent	**81,009**	81,281	**337,889**	359,586
Share capital	**3,043**	5,054	**12,503**	20,762
Average number of equivalent shares (basic)	**164,010,813**	269,985,223	**164,010,813**	269,985,223
Net earnings/(loss) per share (basic and diluted)	**0.014**	0.055	**0.058**	0.239

* *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 2017 comparing to 2016, when reviewing this data.*
Selected financial data were translated from PLN into EUR in the following way:
(i) Statement of financial position data were translated using the period end exchange rate published by the National Bank of Poland for the last day of the period.
(ii) Statement of comprehensive income and cash flows data were translated using the arithmetical average of average exchange rates published by the National Bank of Poland.

Overview of selected details from the Consolidated Statement of Financial Position

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

	As at 31 December 2017	As at 31 December 2016
	PLN (thousands)	
Inventory	512,098	574,098
Advances received	102,244	100,607
Loans and borrowings	211,228	226,092

Inventory

The balance of inventory is PLN 512.1 million as at 31 December 2017 compared to PLN 574.1 million as at 31 December 2016. The decrease in inventory is primarily explained by cost of sales recognized for a total amount of PLN 189.4 million during the year ended 31 December 2017. The decrease is offset in part by the Group's investments associated with direct construction costs for a total amount of PLN 114.5 million.

Advances received

The balance of advances received is PLN 102.2 million as at 31 December 2017 compared to PLN 100.6 million as at 31 December 2016. The increase is a result of advances received from clients regarding sales of residential units for a total amount of PLN 226.0 million and is offset in part by revenues recognized from the sale of residential units for a total amount of PLN 224.4 million.

Loans and borrowings

The total of short-term and long-term loans and borrowings is PLN 211.2 million as at 31 December 2017 compared to PLN 226.1 million as at 31 December 2016. The decrease in loans and borrowings is primarily explained by the effect of repayment of bond loans for a total amount of PLN 95.5 million and repayment of bank loans for a total amount of PLN 64.1 million. The decrease is offset in part by the effect of proceeds from bond loans, net of issue costs for a total amount of PLN 69.1 million and proceeds from bank loans net of bank charges for a total amount of PLN 75.3 million. Of the mentioned PLN 211.2 million, an amount of PLN 48.6 million comprises facilities maturing no later than 31 December 2018.

The maturity structure of the loans and borrowings reflects the Company's recent activities related to bonds issued in 2014 through 2017 as well as the maturity of the bank loans that were obtained to finance construction costs of the projects developed by the Company.

The balance of loans and borrowings may be split into two categories: 1) Bond loans and 2) Bank loans related to residential projects which are completed or under construction.

Bond loans as at 31 December 2017 amounted to PLN 197.3 million (as at 31 December 2016: PLN 222.6 million) comprising a bond loan principal amount of PLN 197.2 million plus accrued interest of PLN 1.7 million minus one-time costs directly attributed to the bond issuances which are amortized based on the effective interest method (PLN 1.6 million). For additional information see Note 28 of the Consolidated Financial Statements.

The bank loans supporting completed projects or projects under construction are tailored to the pace of construction works and sales. As at 31 December 2017, loans in this category amounted to PLN 13.9 million.

Overview of cash flow results

Debt and net debt position

As at 31 December 2017, the Company's total debt to bonds and bank loans amounted to PLN 211.2 million (as at 31 December 2016: PLN 226.1 million). Taking into account the Company's available cash position as at 31 December 2017 amounted to PLN 64.9 million (as at 31 December 2016: PLN 69.1 million), the net debt position of the Company amounted to PLN 146.3 million as at 31 December 2017 (as at 31 December 2016: PLN 157.0 million).

Liquidity and capital resources

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

The following table sets forth the cash flow on a consolidated basis:

	For the year ended 31 December	
	2017	**2016**
	PLN (thousands)	
Cash flow from/(used in) operating activities	27,411	15,324
Cash flow from/(used in) investing activities	16,279	3,137
Cash flow from/(used in) financing activities	(47,886)	(48,936)

Cash flow from/(used in) operating activities

The Company's net cash inflow from operating activities during the year ended 31 December 2017 amounted to PLN 27.4 million which compares to a net cash inflow from operating activities during the year ended 31 December 2016 amounted to PLN 15.3 million. The increase in cash inflow is principally explained by:

- the settlement of the Nova Królikarnia transaction with buy-back of shares amounted to PLN 140.9 million during the year ended 31 December 2016 compared to nil during the year ended 31 December 2017;
- expenses for new land purchases (including advances for land) amounted to PLN 43.2 million during the year ended 31 December 2017 while these expenses amounted to PLN 78.3 million during the year ended 31 December 2016.

The above mentioned effects were offset in part by:

- a net cash outflow used in the Group's investments related to direct construction costs for development of ongoing projects amounted to PLN 114.5 million during the year ended 31 December 2017 as compared to PLN 149.3 million during the year ended 31 December 2016;
- a net cash inflow from advances received from clients regarding sales of residential units amounted to PLN 226.0 million during the year ended 31 December 2017 compared to a net cash inflow from advances received amounted to PLN 291.3 million during the year ended 31 December 2016.

Overview of cash flow results (cont'd)

Cash flow from/(used in) investing activities

The Company's net cash inflow from investing activities amounted to PLN 16.3 million during the year ended 31 December 2017 compared to a net cash inflow from investing activities amounted to PLN 3.1 million during the year ended 31 December 2016. The increase in net cash inflow is primarily explained by:

- a cash inflow in connection with investments in joint ventures amounted to PLN 16.1 million (net proceeds from loans granted to joint ventures) during the year ended 31 December 2017 compared to cash outflow used in connection with investments in joint ventures amounted to PLN 0.1 during the year ended 31 December 2016.

Cash flow from/(used in) financing activities

The Company's net cash outflow used in financing activities amounted to PLN 47.9 million during the year ended 31 December 2017 compared to a net cash outflow used in financing activities amounted to PLN 48.9 million during the year ended 31 December 2016. The decrease in net cash outflow is primarily explained by:

- a net proceeds of secured bank loans amounting to PLN 11.2 million during the year ended 31 December 2017 compared to a net repayment of secured bank loans amounting to PLN 56.2 million during the year ended 31 December 2016.

The above mentioned effect was offset in part by:

- a net repayment of bond loans amounting to PLN 26.4 million during the year ended 31 December 2017 compared to net proceeds from bond loans amounting to PLN 30.3 million during the year ended 31 December 2016;
- a payment of dividend amounting to PLN 31.2 million during the year ended 31 December 2017 compared to PLN 21.8 million during the year ended 31 December 2016.

Employees

The average number of personnel employed by the Company and its subsidiaries – on a fulltime equivalent basis – during 2017 was 68 comparing to 67 during 2016.

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 A. Luzon Group, the Company's largest shareholder, 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 a review. The Company has agreed with A. Luzon Group that the costs for the first and third quarter review will be shared between the Company and its shareholder. The Company considers having its first and third quarter report provided with a review report a benefit to all of its shareholders.

As at 31 December 2017, the Groups' market capitalization was below the value of net assets. Although, the Company strongly believes that this is a temporary situation due to many different factors, including low liquidity of the Company's shares listed on WSE, Management took appropriate steps to review the Company's accounts to determine if there is any additional write-down required and found no basis for it. Management verified that the forecast margin potential in respect of the inventory is positive. Therefore, no indicators for potential additional impairment have been identified.

Disclosure obligations of controlling shareholder

Please note that A. Luzon Group, the Company's controlling shareholder, is a company listed on the Tel Aviv Stock Exchange and is subject to certain disclosure obligations. Some of the documents published by A. Luzon Group in performance of such obligations, available here: http://maya.tase.co.il (some of which are only available in Hebrew), may contain certain information relating to the Company.

Outlook for 2018

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:

		Number of units delivered [(1)]			Number of units expected to be delivered [(1)]			
Project name	**Location**	**Until 31 December 2016**	**During the period ended 31 December 2017**	**Total units delivered**	**Sold until 31 December 2017**	**Units for sales as at 31 December 2017**	**Total units expected to be delivered**	**Total project**
Espresso II & III	Warsaw	153	147	300	1	4	5	305
Kamienica Jeżyce	Poznań	123	170	293	-	2	2	295
Moko	Warsaw	256	52	308	9	28	37	345
Vitalia I	Wrocław	-	111	111	17	11	28	139
Młody Grunwald I & II	Poznań	250	16	266	3	16	19	285
Młody Grunwald III	Poznań	-	36	36	43	29	72	108
Panoramika II	Szczecin	85	13	98	2	7	9	107
Panoramika III	Szczecin	-	-	-	98	24	122	122
Chilli IV	Poznań	-	5	5	11	29	40	45
Naturalis I, II & III	Warsaw	166	5	171	1	-	1	172
Sakura	Warsaw	495	13	508	2	5	7	515
Verdis	Warsaw	425	4	429	3	9	12	441
Tamka	Warsaw	62	3	65	-	-	-	65
Impressio	Wrocław	197	7	204	2	1	3	207
Other (old) projects		1	2	3	1	2	3	6
Total excluding JV		**2,213**	**584**	**2,797**	**193**	**167**	**360**	**3,157**
City Link I [(2)]	Warsaw	-	249	249	67	6	73	322
Total including JV		**2,213**	**833**	**3,046**	**260**	**173**	**433**	**3,479**

(1) 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.

(2) The project is presented in the Consolidated Financial Statements under Investment in joint ventures; the Company's share in the project is 50%.

For information on the completed projects see "Business highlights during the year ended 31 December 2017 - B. Results breakdown by project" (pages 21-23).

B. Current projects under construction and/or on sale

The table below presents information on projects for which completion is scheduled in 2018 and 2019. The Company has obtained construction permits for all projects/stages and has commenced construction.

Project name	**Location**	**Units sold until 31 December 2017**	**Units for sale as at 31 December 2017**	**Total units**	**Net saleable area (m^2)**	**Expected completion of construction**
Espresso IV	Warsaw	144	2	146	8,100	2018
Miasto Moje I	Warsaw	154	51	205	10,900	2018
Miasto Moje II	Warsaw	8	140	148	8,100	2018
City Link III [(2)]	Warsaw	91	277	368	18,700	2019
Miasto Marina	Wrocław	15	136	151	6,200	2019
Panoramika IV	Szczecin	2	109	111	5,800	2019
Vitalia II	Wrocław	6	77	83	4,700	2019
Subtotal excluding JV		**420**	**792**	**1,212**	**62,500**	
City Link II [(1)]	Warsaw	178	11	189	8,800	2018
Total including JV		**598**	**803**	**1,401**	**71,300**	

(1) The project is presented in the Consolidated Financial Statements under Investment in joint venture; the Company's share in the project is 50%.

(2) Previously named Skierniewicka bis; the Company's share in the project is 100%.

Outlook for 2018 (cont'd)

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

Espresso IV

Description of project

The fourth (and last) stage of the Espresso project is being developed on a land strip located in the Wola district in Warsaw at Jana Kazimierza Street, and is a continuation of Espresso I, II and III projects which were completed in 2014, 2016 and 2016, respectively. The fourth stage of this project will comprise 135 apartments and 11 commercial units with an aggregate floor space of 8,100 m^2.

Stage of development

The construction of the Espresso IV project commenced in March 2016, while completion is expected in the first quarter of 2018.

Miasto Moje I and II

Description of project

The first and second stages of the Miasto Moje project are being developed on a land strip located in the Białołęka district in Warsaw at Marywilska Street. The first stage of this project will comprise 191 apartments and 14 commercial units with an aggregate floor space of 10,900 m^2, while the second stage of this project will comprise 145 units and 3 commercial units with an aggregate floor space of 8,100 m^2.

Stage of development

The construction of the Miasto Moje I project commenced in June 2016, while completion is expected in the first quarter of 2018. The construction of the Miasto Moje II project commenced in August 2017, while completion is expected in the fourth quarter of 2018.

City Link III

Description of project

The third (and last) stage of the City Link III project (the Company's share in the project is 100%) is being developed on a land strip located in the Wola district in Warsaw at Skierniewicka street. City Link III project will comprise 364 apartments and 4 commercial units with an aggregate floor space of 18,700 m^2.

Stage of development

The construction of the City Link III project commenced in June 2017, while completion is expected in the fourth quarter of 2019.

Miasto Marina

Description of project

The Miasto Marina project is being developed on a land strip located in Wrocław at Na Grobli Street. The project will comprise 151 units with an aggregate floor space of 6,200 m^2. Following the change in the law during 2017, the project is being developed as apart-hotel with 23% VAT instead of 8% VAT applicable on normal residential project.

Stage of development

The construction of the Miasto Marina project commenced in July 2017, while completion is expected in the first quarter of 2019.

Outlook for 2018 (cont'd)

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

Panoramika IV

Description of project

The fourth stage of the Panoramika project is being developed on a land strip located in Szczecin at Duńska Street, and is a continuation of the Panoramika I, II and III projects, which were completed in 2012, 2016 and 2017, respectively. The fourth stage of this project will comprise 111 apartments and an aggregate floor space of 5,800 m^2.

Stage of development

The construction of the Panoramika IV project commenced in November 2017, while completion is expected in the fourth quarter of 2019.

Vitalia II

Description of project

The second stage of the Vitalia project is being developed on a land strip located in Krzyki district in Wrocław at Jutrzenki Street, and is a continuation of the Vitalia I project, which was completed in September 2017. The second stage of this project will comprise 83 apartments and an aggregate floor space of 4,700 m^2.

Stage of development

The construction of the Vitalia II project commenced in December 2017, while completion is expected in the second quarter of 2019.

City Link II

Description of project

The second stage of the City Link project (the Company's share in the project is 50%) is being developed on part of a land strip located in the Wola district in Warsaw at Skierniewicka street, and is a continuation of the City Link I project, which was completed in September 2017. The second stage of this project will comprise 184 apartments and 5 commercial units with an aggregate floor space of 8,800 m^2.

Stage of development

The pre-sales of the City Link II project commenced in April 2016, while the construction commenced in November 2016. Completion of the City Link II project is expected in the fourth quarter of 2018.

C. Projects for which construction work is planned to commence during 2018

As the Company is aware of the increasing competition in the market, the Company has been careful to manage the number of new projects and the makeup of such projects in order to best satisfy consumer demand. During 2018, the Company is considering the commencement of the 3 stages of ongoing projects and 3 new projects (comprising in total 851 units with a total area of 47,300 m^2), 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.

Outlook for 2018 (cont'd)

C. Projects for which construction work is planned to commence during 2018 (cont'd)

a) New Projects

Bułgarska

The Bułgarska project will be developed on a land strip located in Poznań at Świerzawska Street. The Company is considering commencing construction of entire project during 2018, the project will comprise 268 units with an aggregate floor space of 14,400 m^2.

Ursus I

The Ursus project will be developed on a land strip located in the Ursus district in Warsaw at Gierdziejewskiego Street. The Company is considering commencing construction of the first stage of this project during 2018, the first stage will comprise 151 units with an aggregate floor space of 7,300 m^2.

Matisse I

The Matisse project will be developed on a land strip located in the Jagodno district in Wrocław at Buforowa Street. The Company is considering commencing construction of the first stage of this project during 2018, the first stage of this project will comprise 127 units with an aggregate floor space of 6,300 m^2.

b) New stages of running projects

Chilli V

The Chilli V project is a continuation of the Chilli I - IV projects. The project will comprise 32 units with an aggregate floor space of 2,400 m^2. The Company is considering commencing construction of this stage during 2018.

Vitalia III

The third and the last stage of Vitalia project that is a continuation of the Vitalia I and II projects, will comprise 81 units with an aggregate floor space of 6,800 m^2. The Company is considering commencing construction of this stage during 2018.

Miasto Moje III

The Miasto Moje III project is a continuation of the Miasto Moje I and II projects. The project will comprise 192 units with an aggregate floor space of 10,100 m^2. The Company is considering commencing construction of this stage during 2018.

Outlook for 2018 (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

The current volume and value of the preliminary sales agreements signed with the clients do not impact the Consolidated Statement of Comprehensive Income immediately but only after final settlement of the contracts with the customers (for more details see under "A – Completed projects" above on page 35). 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
Panoramika III	Szczecin	20,464	Completed
Młody Grunwald III	Poznań	14,332	Completed
Moko	Warsaw	8,337	Completed
Vitalia I	Wrocław	5,538	Completed
Chilli IV	Poznań	2,645	Completed
Impressio	Wrocław	1,682	Completed
Młody Grunwald I & II	Poznań	1,620	Completed
Verdis	Warsaw	1,504	Completed
Sakura	Warsaw	1,241	Completed
Espresso II & III	Warsaw	577	Completed
Panoramika II	Szczecin	573	Completed
Naturalis I, III & III	Warsaw	534	Completed
Kamienica Jeżyce	Poznań	33	Completed
Other (old) projects		636	Completed
***Subtotal completed projects* (1)**		***59,716***	
Espresso IV	Warsaw	59,150	2018
Miasto Moje I	Warsaw	45,151	2018
Miasto Moje II	Warsaw	3,618	2018
City Link III (4)	Warsaw	37,032	2019
Marina Miasto	Wrocław	4,255	2019
Vitalia II	Wrocław	1,840	2019
Panoramika IV	Szczecin	531	2019
***Subtotal ongoing projects* (2)**		***151,577***	
City Link I (1)/ (3)	Warsaw	26,395	Completed
City Link II (2)/(3)	Warsaw	78,193	2018
Subtotal projects held by joint venture		***104,588***	
Total		**315,881**	

(1) *For information on the completed projects see "Business highlights during the year ended 31 December 2017 – B. Results breakdown by project" (pages 21-23).*

(2) *For information on current projects under construction and/or on sale, see under "B" above (pages 35-37).*

(3) *This project is presented in the Consolidated Financial Statements under Investment in joint ventures; the Company's share in this project is 50%.*

(4) *Previously named Skierniewicka bis; the Company's share in the project is 100%.*

E. Main risks and uncertainties during 2018

While the improving market in 2015, 2016 and 2017 potentially bodes well for the Company in 2018, the overall economic situation and geopolitical situation in Europe and in Poland and the ongoing uncertainties in the housing market make it very difficult to predict with precision results for 2018. The level of development of the Polish economy, the performance of the banking industry and consumers' interest in new housing projects, the challenge of securing lands for considerable prices and the significant impact of it on the margins of new phases and projects, as well as increasing competition in the market are considered to be the most significant uncertainties for the financial year ending 31 December 2018.

Additional information to the report

Major shareholders

To the best of the Company's knowledge, as at the date of publication of this annual report (7 March 2018), the following shareholders are entitled to exercise over 3% of the voting rights at the General Meeting of Shareholders in the Company:

Shares	**As at 7 March 2018 Number of shares / % of shares**	**Change in number of shares**	**As at 31 December 2017 Number of shares / % of shares**	**Change in number of shares**	**As oat 31 December 2016 Number of shares / % of shares**
Shares issued:	***164,010,813***	**-**	***164,010,813***	***(108,349,187)***	***272,360,000***
Major shareholders:					
Ronson Europe N.V. (treasury shares: redeemed as per 1 March 2017)	-	-	-	(108,349,187)	108,349,187 39.78%
I.T.R. Dori B.V. (1)	87,449,187 53.32%	-	87,449,187 53.32%	-	87,449,187 32.11%
RN Residential B.V. (1)	20,900,000 12.74%	-	20,900,000 12.74%	-	20,900,000 7.67%
Nationale Nederlanden Otwarty Fundusz Emerytalny	23,884,091 14,6%	-	23,884,091 14,6%	N/A	N/A Between 5%-10%
Metlife Otwarty Fundusz Emerytalny	N/A Between 5%-10%	N/A	N/A Between 5%-10%	N/A	N/A Between 3%-5%
Aviva OFE Aviva BZWBK	N/A Between 3%-5%	N/A	N/A Between 3%-5%	N/A	N/A Below 3%

(1) The subsidiary of A. Luzon Group.

As of the date of the redemption of the treasury shares held by Ronson Europe N.V (1 March 2017) and as at 31 December 2017 and the date of publication of this report, A. Luzon Group indirectly controls 66.06% of the Company's outstanding shares.

Changes in the Management Board in the year ended 31 December 2017 and until the date of publication of this report

The Extraordinary General Meeting of Shareholders held on 1 March 2017 approved the appointment of Mr Erez Tik and Mr Alon Haver as members of the Management Board and managing directors B for a term of four years. Mr Erez Tik and Mr Alon Haver replaced Mr Erez Yoskovitz, who stepped down as managing director B effective on the day of the Extraordinary General Meeting of Shareholders (1 March 2017) and Mr Roy Vishnovizki, who submitted his resignation as managing director B on 18 January 2017 with immediate effect.

On 27 April 2017, Mr Shraga Weisman submitted his resignation from his function as member of the Management Board and CEO of the Company with effect from that same date. The Annual General Meeting of Shareholders held on 30 June 2017 approved (i) the appointment of Mr Tomasz Łapiński, until then holding a position as member of the Management Board (managing director A) and CFO of the Company, as member of the Management Board (managing director A) and as CEO of the Company for a term of four years and (ii) the appointment of Mr Rami Geris, until then Financial Controller of the Company, as member of the Management Board (managing director A) and as CFO of the Company for a term of four years.

The Extraordinary General Meeting of Shareholders held on 20 November 2017 approved the appointment of Mr Nir Netzer as CEO and member of Management Board (managing director A) for a term of four years. Mr Netzer replaced Mr Tomasz Łapiński who submitted his resignation as CEO and member of the Management Board. The resignation of Mr Łapiński was effective as per the date of the Extraordinary General Meeting of Shareholders (20 November 2017).

Additional information to the report (cont'd)

Changes in the Supervisory Board in the year ended 31 December 2017 and until the date of publication of the report

The Extraordinary General Meeting of Shareholders held on 1 March 2017 approved the appointment of Ms Mikhal Shapira, Mr Ofer Kadouri and Mr Alon Kadouri as members of the Supervisory Board for a term of four years. Ms Mikhal Shapira, Mr Ofer Kadouri and Mr Alon Kadouri replaced Mr Mark Segall, Mr Yair Shilhav and Mr Reuben Sharoni, who stepped down as Supervisory Board directors effective on the day of the Extraordinary General Meeting of Shareholders (1 March 2017).

The Annual General Meeting of Shareholders held on 30 June 2017 approved the appointment of Mr Piotr Palenik as member of the Supervisory Board for a term of four years.

The Extraordinary General Meeting of Shareholders held on 20 November 2017 approved the appointment of Mr Shmuel Rofe as member of the Supervisory Board for a term of four years. Mr Smuel Rofe replaced Ms Mikhal Shapira as a member of the Supervisory Board who resigned from the Supervisory Board with effect as of 13 September 2017.

Changes in ownership of shares and rights to shares by Supervisory Board members in the year ended 31 December 2017 and until the date of publication of the report

Mr Amos Luzon as at 31 December 2017 and as at the day of publishing this report held 63.17 % of the shares and voting rights in A. Luzon Group (through A. Luzon Properties and Investments Ltd., a private company owned by Mr Amos Luzon "99%"), and as a result, thus indirectly held a 41.31% interest in the Company.

Mr Erez Tik as at 31 December 2017 and as at the day of publishing this report held 0.82% of the shares and voting rights in A. Luzon Group, and as a result, thus indirectly held a 0.54% interest in the Company.

Indemnity for Management Board members and Supervisory Board members

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

Directors 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 2017 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 2017 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.

Additional information to the report (cont'd)

Overview of the economic results during the year ended 31 December 2017

The table below presents the Company economic results during the year ended 31 December 2017, under the assumption that the results from joint ventures are presented on a fully consolidated basis (100%):

For the 12 months ended 31 December	**2017**	**2016**
In thousands of Polish Zlotys (PLN)	**(Unaudited)**	**(Unaudited)**
Revenue from residential projects	319,269	307,606
Revenue from sale of services	600	-
Revenue from the sale of land	1,600	-
Revenue from the sale of the Nova Królikarnia project	-	175,119
Revenue	**321,469**	**482,725**
Cost of sales of residential projects	(258,711)	(248,222)
Cost of sales of land	(1,221)	-
Cost of sales of the Nova Królikarnia project	-	(117,850)
Cost of sales	**(259,932)**	**(366,072)**
Gross profit	**61,537**	**116,653**
Selling and marketing expenses	(5,924)	(8,789)
Administrative expenses	(20,027)	(22,262)
Other expenses	(4,442)	(3,354)
Other income	812	887
Result from operating activities	**31,956**	**83,135**
Finance income	669	1,415
Finance expense	(7,737)	(8,869)
Net finance income/(expense)	**(7,068)**	**(7,454)**
Profit/(loss) before taxation	**24,888**	**75,681**
Income tax benefit/(expense)	(2,593)	(12,497)
Profit for the period	**22,295**	**63,184**
Total profit/(loss) for the period attributable to:		
equity holders of the parent	9,464	64,531
Non-controlling interests	12,831	(1,347)
Total profit/(loss) for the period, net of tax	**22,295**	**63,184**

Additional information to the report (cont'd)

Overview of the results during the three months ended 31 December 2017

The Company's net profit for the three months ended 31 December 2017 was PLN 9,337 thousand and can be summarized as follows

For the three months ended 31 December *In thousands of Polish Zlotys (PLN)*	**2017** **(Unaudited)**	**2016** **(Unaudited)**
Revenue	49,512	282,197
Cost of sales	(40,775)	(204,551)
Gross profit	**8,737**	**77,646**
Selling and marketing expenses	(2,032)	(2,252)
Administrative expenses	(4,955)	(7,938)
Share of profit/(loss) from joint ventures	11,758	(477)
Other expenses	(733)	(1,013)
Other income	221	219
Result from operating activities	**12,996**	**66,185**
Finance income	192	377
Finance expense	(1,781)	(2,270)
Net finance income/(expense)	**(1,589)**	**(1,893)**
Profit/(loss) before taxation	**11,407**	**64,292**
Income tax benefit/(expresses)	(2,132)	(10,636)
Profit/(loss) for the period before non-controlling interests	**9,275**	**53,656**
Non-controlling interests	62	50
Net profit/(loss) for the period attributable to the equity holders of the parent	**9,337**	**53,706**

Statement relating to the system of internal control

In line with best practice provision 1.4.3 of the Dutch 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.

Based on the assessment performed, the Board of Directors believes that, as of December 31, 2017, the Company's Internal Control over Financial Reporting is considered effective and that (i) the Board Report provides sufficient insights into any material weakness in the effectiveness of the internal risk management and control systems, (ii) the internal risk management and control systems are designed to provide reasonable assurance that the financial reporting does not contain any material inaccuracies, (iii) based on the current state of affairs, it is justified that the Group's and the Company's financial reporting is prepared on a going concern basis, and (iv) the Board Report states those material risks and uncertainties that are, in the Board of Director's judgment, relevant to the expectation of the Company's continuity for the period of twelve months after the preparation of the Board Report.

Additional information to the report (cont'd)

Statement referred to in the Decree of 29 August 2017, Stb 747, 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 29 August 2017, 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 Dutch Corporate Governance 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 Dutch Corporate Governance Code, nor does it intend to comply during the current financial year or the next financial year. Its reasons for doing so are explained on page 3-5.

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 23 November 2017. For information about agreed-upon engagements of the Company's auditor see Note 16 of the Company Financial Statements.

Financial risk management, objectives and policies

For information on the financial risk management, objectives and policies see Note 40 of the Consolidated Financial Statements.

Other

As at 31 December 2017, the Company has issued guarantees for bank loans granted to subsidiaries amounted to PLN 3,900 thousand (as at 31 December 2016 amounted to PLN 2,527 thousand).

As at 31 December 2017, the Group had no litigation claims or liabilities exceeding in total 10% of the Group's equity.

The following net movements in the Group's main provisions took place during the year ended 31 December 2017:

- an increase in the provision for deferred tax liabilities of PLN 334 thousand (an increase of PLN 3,334 thousand during the year ended 31 December 2016).

The Management Board

Nir Netzer Chief Executive Officer	**Rami Geris** Chief Financial Officer	**Andrzej Gutowski** Sales and Marketing Director
Erez Tik	**Alon Haver**	

Rotterdam, 7 March 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December		**2017**	**2016**
In thousands of Polish Zlotys (PLN)	***Note***		
Revenue from residential projects		224,353	307,606
Revenue from sale of services		5,791	2,037
Revenue from the sale of land		1,600	-
Revenue from the sale of the Nova Królikarnia project	*39*	-	175,119
Revenue	*6*	**231,744**	**484,762**
Cost of sales of residential projects		(192,445)	(248,222)
Cost of sales of land		(1,221)	-
Cost of sales of the Nova Królikarnia project	*39*	-	(117,850)
Cost of sales	*7*	**(193,666)**	**(366,072)**
Gross profit		**38,078**	**118,690**
Selling and marketing expenses	*8*	(5,684)	(8,083)
Administrative expenses	*9*	(19,335)	(22,197)
Share of profit/(loss) from joint ventures	*18*	11,311	(1,380)
Other expenses	*11*	(4,427)	(3,354)
Other income	*12*	812	876
Result from operating activities		**20,755**	**84,552**
Finance income	*13*	859	1,900
Finance expense	*13*	(7,724)	(8,857)
Net finance income/(expense)		**(6,865)**	**(6,957)**
Profit/(loss) before taxation		**13,890**	**77,595**
Income tax benefit/(expense)	*14*	(2,593)	(12,497)
Profit/(loss) for the year		**11,297**	**65,098**
Other comprehensive income		-	-
Total comprehensive income/(expense) for the year, net of tax		**11,297**	**65,098**
Total profit/(loss) for the year attributable to:			
equity holders of the parent		9,464	64,531
non-controlling interests	*26*	1,833	567
Total profit/(loss) for the year, net of tax		**11,297**	**65,098**
Total comprehensive income/(expense) attributable to:			
equity holders of the parent		9,464	64,531
non-controlling interests	*26*	1,833	567
Total comprehensive income/(expense) for the year, net of tax		**11,297**	**65,098**
Weighted average number of ordinary shares (basic and diluted)	*27*	**164,010,813**	**269,985,223**
In Polish Zlotys (PLN)			
Net earnings/(loss) per share attributable to the equity holders of the parent (basic and diluted)	*27*	**0.058**	**0.239**

The notes on pages 50 to 115 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December		2017	2016
In thousands of Polish Zlotys (PLN)	***Note***		
Assets			
Non-current assets			
Property and equipment	*15*	8,169	8,823
Investment property	*16*	8,743	8,743
Investment in joint ventures	*18*	5,162	744
Deferred tax assets	*19*	4,025	3,616
Total non-current assets		**26,099**	**21,926**
Current assets			
Inventory	*20*	512,098	574,098
Advances for land *	*21*	80,060	36,900
Trade and other receivables and prepayments *	*22*	11,704	10,145
Income tax receivable		590	492
Loans granted to third parties	*17*	-	508
Loans granted to joint ventures	*18*	6,922	15,906
Amount due from former shareholder	*39*	-	9,900
Other current financial assets	*23*	3,466	4,480
Cash and cash equivalents	*24*	64,860	69,056
Total current assets		**679,700**	**721,485**
Total assets		**705,799**	**743,411**

** In the Annual Financial Statements for the year ended 31 December 2016 advances for land in the amount of PLN 36.9 million were presented under trade and other receivables and prepayments.*

The notes on pages 50 to 115 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position (cont'd)

As at 31 December *In thousands of Polish Zlotys (PLN)*	***Note***	**2017**	**2016**
Equity and liabilities			
Equity			
Shareholders' equity			
Share capital		12,503	20,762
Share premium		150,278	282,873
Treasury shares		-	(140,854)
Retained earnings		175,108	196,805
Equity attributable to equity holders of the parent	*25*	**337,889**	**359,586**
Non-controlling interests	*26*	4,123	2,290
Total equity		**342,012**	**361,876**
Liabilities			
Non-current liabilities			
Bond loans	*28, 29*	153,517	137,538
Secured bank loans	*28, 30*	9,155	1,941
Share-based payment liabilities	*35*	-	978
Deferred tax liability	*19*	11,448	11,114
Total non-current liabilities		**174,120**	**151,571**
Current liabilities			
Trade and other payables and accrued expenses	*32*	37,646	40,882
Bond loans	*28, 29*	43,791	85,053
Secured bank loans	*28, 30*	4,765	-
Loans from third parties	*28, 31*	-	1,560
Advances received	*33*	102,244	100,607
Income tax payable		89	763
Provisions	*34*	1,132	1,099
Total current liabilities		**189,667**	**229,964**
Total liabilities		**363,787**	**381,535**
Total equity and liabilities		**705,799**	**743,411**

The notes on pages 50 to 115 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the years ended 31 December 2017 and 31 December 2016:

In thousands of Polish Zlotys (PLN)	Attributable to the equity holders of the parent						
	Share capital	Share premium	Treasury shares	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2016	**20,762**	**282,873**	**-**	**154,063**	**457,698**	**1,723**	**459,421**
Comprehensive income:							
Profit/(loss) for the year ended 31 December 2016	-	-	-	64,531	64,531	567	65,098
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income/(expense)	**-**	**-**	**-**	**64,531**	**64,531**	**567**	**65,098**
Dividend paid (see Note 25)	-	-	-	(21,789)	(21,789)	-	(21,789)
Own shares acquired (see Note 39 and 25)	-	-	(140,854)	-	(140,854)	-	(140,854)
Balance at 31 December 2016	**20,762**	**282,873**	**(140,854)**	**196,805**	**359,586**	**2,290**	**361,876**
Comprehensive income:							
Profit/(loss) for the year ended 31 December 2017	-	-	-	9,464	9,464	1,833	11,297
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income/(expense)	**-**	**-**	**-**	**9,464**	**9,464**	**1,833**	**11,297**
Dividend paid (see Note 25)	-	-	-	(31,161)	(31,161)	-	(31,161)
Redemption of treasury shares (see Note 39 and 25)	(8,259)	(132,595)	140,854	-	-	-	-
Balance at 31 December 2017	**12,503**	**150,278**	**-**	**175,108**	**337,889**	**4,123**	**342,012**

The notes on pages 50 to 115 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	***Note***	**2017**	**2016**
Cash flows from/(used in) operating activities			
Profit/(loss) for the period		11,297	65,098
Adjustments to reconcile profit for the period to net cash used in operating activities:			
Settlement of the Nova Królikarnia transaction with buy-back of shares	*25,39*	-	(140,854)
Depreciation	*15*	965	987
Write-down of inventory	*20*	3,314	2,269
Finance expense	*13*	7,724	8,857
Finance income	*13*	(859)	(1,900)
Profit on sale of property and equipment	*12*	(5)	(70)
Share of loss/(profit) from joint ventures	*18*	(11,311)	1,380
Share-based payment	*35*	(978)	348
Income tax expense/(benefit)	*14*	2,593	12,497
Subtotal		***12,740***	***(51,388)***
Decrease/(increase) in receivables from former shareholder	*39*	9,900	(9,900)
Decrease/(increase) in inventory	*42*	65,671	135,968
Decrease/(increase) in advances for land		(43,160)	(36,900)
Decrease/(increase) in trade and other receivables and prepayments	*42*	(1,357)	4,650
Decrease/(increase) in other current financial assets		1,014	(282)
Increase/(decrease) in trade and other payables and accrued expenses		(3,236)	2,308
Increase/(decrease) in provisions	*34*	33	(342)
Increase/(decrease) in advances received		1,637	(16,274)
Subtotal		***43,242***	***27,840***
Interest paid		(13,050)	(13,077)
Interest received		659	1,345
Income tax received/(paid)		(3,440)	(784)
Net cash from/(used in) operating activities		**27,411**	**15,324**
Cash flows from/(used in) investing activities			
Acquisition of property and equipment	*15*	(527)	(1,678)
Proceeds from loans granted to third parties	*17*	449	-
Investment in joint ventures	*18*	16,136	(88)
Short-term bank deposits – collateralized		-	4,093
Proceeds from sale of property and equipment		221	810
Net cash from/(used in) investing activities		**16,279**	**3,137**
Cash flows from/(used in) financing activities			
Proceeds from bank loans, net of bank charges	*30*	75,285	43,803
Repayment of bank loans	*30*	(64,071)	(100,024)
Proceeds from bond loans, net of issue costs	*29*	69,118	53,939
Repayment of bond loans	*29*	(95,500)	(23,684)
Dividends paid to equity holders of the parent	*25*	(31,161)	(21,789)
Repayment of loans from third parties	*31*	(1,557)	(1,181)
Net cash from/(used in) financing activities		**(47,886)**	**(48,936)**
Net change in cash and cash equivalents		**(4,196)**	**(30,475)**
Cash and cash equivalents at the beginning of the year		69,056	99,531
Cash and cash equivalents at the end of the year *	*24*	**64,860**	**69,056**

** Including restricted cash that amounted to PLN 14,090 thousand and PLN 3,115 thousand as 31 December 2017 and as 31 December 2016, respectively.*

The notes on pages 50 to 115 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 shares of the Company are traded on the Warsaw Stock Exchange since 5 November 2007. On 5 February 2018, the Company announced its plan for a transformation of the Company into a European Company (SE) and a subsequent transfer of its registered office to Poland. For further details reference is made to Note 44.

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.

As at 31 December 2017, following the redemption of 108,349,187 treasury shares held by the Company on 1 March 2017, 66.06% of the outstanding shares are controlled by Amos Luzon Development and Energy Group Ltd. ('A. Luzon Group'). The remaining 33.94% of the outstanding shares are held by Nationale Nederlanden Otwarty Fundusz Emerytalny holding 14.6% and by other investors including Metlife Otwarty Fundusz Emerytalny and Aviva OFE Aviva BZ WBK. 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.

As at 31 December 2017, the Groups' market capitalization was below the value of net assets. Although, the Company strongly believes that this is a temporary situation due to many different factors, including low liquidity of the Company's shares listed on WSE, Management took appropriate steps to review the Company's accounts to determine if there is any additional write-down required and found no basis for it. Management verified that the forecast margin potential in respect of the inventory is positive. Therefore, no indicators for potential additional impairment have been identified.

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

(b) The details of the Polish companies whose financial statements have been included in these Consolidated Financial Statements, the year of incorporation and the percentage of ownership and voting rights directly or indirectly held by the Company as at 31 December 2017, 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 2017	31 December 2016
a. held directly by the Company :			
1. Ronson Development Management Sp. z o.o.	1999	100%	100%
2. Ronson Development 2000 Sp. z o.o.	2000	100%	100%
3. Ronson Development Warsaw Sp. z o.o.	2000	100%	100%
4. Ronson Development Investment Sp. z o.o.	2002	100%	100%
5. Ronson Development Metropol Sp. z o.o.	2002	100%	100%
6. Ronson Development Properties Sp. z o.o.	2002	100%	100%
7. Apartments Projekt Sp. z o.o.	2003	100%	100%
8. Ronson Development Enterprise Sp. z o.o.	2004	100%	100%
9. Ronson Development Company Sp. z o.o.	2005	100%	100%
10. Ronson Development Creations Sp. z o.o.	2005	100%	100%
11. Ronson Development Buildings Sp. z o.o.	2005	100%	100%
12. Ronson Development Structure Sp. z o.o.	2005	100%	100%
13. Ronson Development Poznań Sp. z o.o.	2005	100%	100%
14. E.E.E. Development Sp. z o.o.	2005	100%	100%
15. Ronson Development Innovation Sp. z o.o.	2006	100%	100%
16. Ronson Development Wrocław Sp. z o.o.	2006	100%	100%
17. Ronson Development Capital Sp. z o.o.	2006	100%	100%
18. Ronson Development Sp. z o.o.	2006	100%	100%
19. Ronson Development Construction Sp. z o.o.	2006	100%	100%
20. City 2015 Sp. z o.o.	2006	100%	100%
21. Ronson Development Village Sp. z o.o. (*)	2007	100%	100%
22. Ronson Development Conception Sp. z o.o.	2007	100%	100%

Notes to the Consolidated Financial Statements

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

Entity name	Year of incorporation	Share of ownership & voting rightsat the end of 31 December 2017	31 December 2016
b. held directly by the Company (cont'd):			
23. Ronson Development Architecture Sp. z o.o.	2007	100%	100%
24. Ronson Development Skyline Sp. z o.o.	2007	100%	100%
25. Continental Development Sp. z o.o.	2007	100%	100%
26. Ronson Development Universal Sp. z o.o. (*)	2007	100%	100%
27. Ronson Development Retreat Sp. z o.o.	2007	100%	100%
28. Ronson Development South Sp. z o.o.	2007	100%	100%
29. Ronson Development Partner 5 Sp. z o.o.	2007	100%	100%
30. Ronson Development Partner 4 Sp. z o.o.	2007	100%	100%
31. Ronson Development North Sp. z o.o.	2007	100%	100%
32. Ronson Development Providence Sp. z o.o.	2007	100%	100%
33. Ronson Development Finco Sp. z o.o.	2009	100%	100%
34. Ronson Development Partner 2 Sp. z o.o.	2010	100%	100%
35. Ronson Development Skyline 2010 Sp. z o.o. w likwidacji	2010	100%	100%
36. Ronson Development Partner 3 Sp. z o.o.	2012	100%	100%
b. held indirectly by the Company:			
37. AGRT Sp. z o.o.	2007	100%	100%
38. Ronson Development Partner 4 Spółka z ograniczoną odpowiedzialnością – Panoramika Sp.k.	2007	100%	100%
39. Ronson Development Spółka z ograniczoną odpowiedzialnością - Estate Sp.k.	2007	100%	100%
40. Ronson Development Spółka z ograniczoną odpowiedzialnością - Home Sp.k.	2007	100%	100%
41. Ronson Development Spółka z ograniczoną odpowiedzialnością - Horizon Sp.k.	2007	100%	100%
42. Ronson Development Partner 3 Spółka z ograniczoną odpowiedzialnością - Sakura Sp.k.	2007	100%	100%
43. Destiny Sp. z o.o.	2007	100%	100%
44. Ronson Development Millenium Sp. z o.o.	2007	100%	100%
45. Ronson Development Spółka z ograniczoną odpowiedzialnością - EEE 2011 Sp.k.	2009	100%	100%
46. Ronson Development Spółka z ograniczoną odpowiedzialnością - Apartments 2011 Sp.k.	2009	100%	100%
47. Ronson Development Spółka z ograniczoną odpowiedzialnością - Idea Sp.k.	2009	100%	100%
48. Ronson Development Partner 2 Spółka z ograniczoną odpowiedzialnością –Destiny 2011 Sp.k.	2009	100%	100%
49. Ronson Development Partner 2 Spółka z ograniczoną odpowiedzialnością - Enterprise 2011 Sp.k.	2009	100%	100%
50. Ronson Development Partner 2 Spółka z ograniczoną odpowiedzialnością - Retreat 2011 Sp.k.	2009	100%	100%
51. Ronson Development Partner 5 Spółka z ograniczoną odpowiedzialnością - Vitalia Sp.k.	2009	100%	100%
52. Ronson Development Spółka z ograniczoną odpowiedzialnością - 2011 Sp.k.	2009	100%	100%
53. Ronson Development Spółka z ograniczoną odpowiedzialnością - Gemini 2 Sp.k.	2009	100%	100%
54. Ronson Development Spółka z ograniczoną odpowiedzialnością - Verdis Sp.k.	2009	100%	100%
55. Ronson Espresso Sp. z o.o.	2006	82%	82%
56. Ronson Development Apartments 2010 Sp. z o.o.	2010	100%	100%
57. RD 2010 Sp. z o.o.	2010	100%	100%
58. Retreat Sp. z o.o.	2010	100%	100%
59. Enterprise 2010 Sp. z o.o.	2010	100%	100%
60. Wrocław 2010 Sp. z o.o.	2010	100%	100%
61. E.E.E. Development 2010 Sp. z o.o.	2010	100%	100%
62. Ronson Development Nautica 2010 Sp. z o.o.	2010	100%	100%
63. Gemini 2010 Sp. z o.o.	2010	100%	100%
64. Ronson Development Spółka z ograniczoną odpowiedzialnością - Naturalis Sp.k.	2011	100%	100%
65. Ronson Development Spółka z ograniczoną odpowiedzialnością - Impressio Sp.k.	2011	100%	100%
66. Ronson Development Spółka z ograniczoną odpowiedzialnością - Continental 2011 Sp.k.	2011	100%	100%
67. Ronson Development Spółka z ograniczoną odpowiedzialnością - Providence 2011 Sp.k.	2011	100%	100%
68. Ronson Development Partner 2 Spółka z ograniczoną odpowiedzialnością - Capital 2011 Sp. k.	2011	100%	100%
69. Ronson Development Spółka z ograniczoną odpowiedzialnością - Architecture 2011 Sp.k.	2011	100%	100%
70. Ronson Development Spółka z ograniczoną odpowiedzialnością - City 1 Sp.k.	2012	100%	100%
71. Ronson Development Partner 2 Spółka z ograniczoną odpowiedzialnością - Miasto Moje Sp. k.	2012	100%	100%
72. Ronson Development Spółka z ograniczoną odpowiedzialnością - City 3 Sp.k.	2012	100%	100%
73. Ronson Development Spółka z ograniczoną odpowiedzialnością - City 4 Sp.k.	2016	100%	100%
74. Ronson Development Spółka z ograniczoną odpowiedzialnością. - City 5 Sp.k.	2016	100%	100%
75. Ronson Development Spółka z ograniczoną odpowiedzialnością - Projekt 1 Sp.k.	2017	100%	n.a.
76. Ronson Development Spółka z ograniczoną odpowiedzialnością - Projekt 2 Sp.k.	2017	100%	n.a.
77. Ronson Development Spółka z ograniczoną odpowiedzialnością - Projekt 3 Sp.k.	2017	100%	n.a.
78. Ronson Development Spółka z ograniczoną odpowiedzialnością - Projekt 4 Sp.k.	2017	100%	n.a.
79. Ronson Development Spółka z ograniczoną odpowiedzialnością - Projekt 5 Sp.k.	2017	100%	n.a.
80. Ronson Development Spółka z ograniczoną odpowiedzialnością - Projekt 6 Sp.k.	2017	100%	n.a.
81. Ronson Development Spółka z ograniczoną odpowiedzialnością - Projekt 7 Sp.k.	2017	100%	n.a.
82. Ronson Development Spółka z ograniczoną odpowiedzialnością - Projekt 8 Sp.k.	2017	100%	n.a.
83. Ursus 2017 Sp. z o.o.	2017	100%	n.a.
84. Projekt City Sp. z o.o.	2017	100%	n.a.

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

Notes to the Consolidated Financial Statements

2. Basis of preparation and measurement

(a) Basis of preparation and statement of compliance

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ('IFRS'). In light of the nature of the Group's activities, the IFRSs applied by the Group are not different from the IFRSs endorsed by the European Union, which are effective for the financial year ended 31 December 2017. The Group is aware about New standards and interpretations that have been issued but have not yet become effective, including among the other IFRS 15 which is effective for financial years beginning on or after 1 January 2018 (for additional information see note 2 (g)). The Company Financial Statements have been prepared in accordance with article 362.8 of the Netherlands Civil Code.

The Consolidated Financial Statements were authorized by the Boards of Directors of Ronson Europe N.V. on 7 March 2018. 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 16 and Note 3(s).

(c) Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency') being Polish Zloty ('PLN'). Polish zloty is the presentation currency of the consolidated financial statements of the Group, and is also the functional currency of the parent company. Although the Company has its statutory seat in the Netherlands, it operates in Poland, therefore during 2016 the parent company applied to the Dutch tax authorities and changed its functional currency from EUR to PLN starting from 1 January 2017.

The Consolidated Financial Statements are presented in thousands of Polish Zloty, except when otherwise indicated.

(d) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reported period. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised. In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements, are described in the following notes:

- Note 16 – investment property
- Note 19 – utilization of tax assets
- Note 20 – inventory
- Note 34 – provisions
- Note 38 – commitments and contingencies

The Company conducts residential units projects and developing activities in the dedicated SPVs. The Company reflects in the Consolidated Financial Statements the activities and transactions related to such projects based on the substance rather than legal form. Such transactions are accounted for in accordance with IAS 2 and IAS 18, whereby inventory is sold and revenue should be recognized after the criteria are met.

Notes to the Consolidated Financial Statements

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

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

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

Valuation of investment property

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

Deferred tax asset recognition

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

Uncertain tax treatment

Regulations regarding VAT, corporate profits tax and social security contributions are subject to frequent changes. These changes result in there being little point of reference and few established precedents that may be followed. The binding regulations also contain uncertainties, resulting in differences in opinion regarding the legal interpretation of tax regulations both between government bodies, and between government bodies and companies.

Tax and other settlements may be subject to inspection by administrative bodies authorised to impose high penalties and fines, and any additional taxation liabilities calculated as a result must be paid together with high interest. The above circumstances mean that tax exposure is greater in Poland than in countries that have a more established taxation system. Accordingly, the amounts shown in the financial statements may change at a later date as a result of the final decision of the tax authorities.

On 15 July 2016, amendments were made to the Tax Ordinance to introduce the provisions of General Anti-Avoidance Rules (GAAR). GAAR are targeted to prevent origination and use of fictitious legal structures set up to avoid payment of tax in Poland. GAAR define tax evasion as an activity performed mainly with a view to realising tax gains, which is contrary, under given circumstances, to the subject and objective of the tax law. In accordance with GAAR, an activity does not bring about tax gains, if its modus operandi was false. Any instances of (i) unreasonable division of an operation (ii) involvement of agents despite lack of economic rationale for such involvement, (iii) mutually exclusive or mutually compensating elements, as well as (iv) other activities similar to those referred to earlier may be treated as a hint of artificial activities subject to GAAR. New regulations will require considerably greater judgment in assessing tax effects of individual transactions.

The GAAR clause should be applied to the transactions performed after clause effective date and to the transactions which were performed prior to GAAR clause effective date, but for which after the clause effective date tax gains were realised or continue to be realised. The implementation of the above provisions will enable Polish tax authority challenge such arrangements realised by tax remitters as restructuring or reorganization.

Notes to the Consolidated Financial Statements

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

The Group accounts for current and deferred tax assets and liabilities based on the requirements of IAS 12 Income taxes, based on taxable profit (tax loss), taxable base, carry-forward of unused tax losses and carry-forward of unused tax credits, and tax rates, while considering the assessment of uncertainty related to tax settlements. If uncertainty exists as to whether and to what extent tax authority will accept individual tax treatments of made transactions, the Group discloses these settlements while accounting for uncertainty assessment.

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

(e) Basis of consolidation

These Consolidated Financial Statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee;
- the ability to use its power over the investee to affect its returns.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

The financial statements of subsidiaries are prepared for the same period as the financial statement of parent. The Group entities keep books of accounts in accordance with accounting policies specified in the Accounting Act dated 29 September 1994 ('the Accounting Act') with subsequent amendments and the regulations issued based on that Act (all together: 'Polish Accounting Standards'). Ronson Europe N.V. keeps the books of accounts in accordance with accounting policies required by the 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 as adopted by EU.

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

Notes to the Consolidated Financial Statements

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

(f) Changes in accounting policies and disclosures

The accounting policies applied in the preparation of the attached consolidated financial statements are consistent with those applied in the preparation of the consolidated financial statements of the Group for the year ended 31 December 2017 with the exception of the amendments presented below. These changes were applied in the attached consolidated financial statements on their effective date and had no significant impact on the disclosed financial information, did not apply to the Group's transactions, or the Group decided not to apply a newly introduced approach or model.

- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses (issued on 19 January 2016) ;
- Amendments to IAS 7 Disclosure Initiative (issued on 29 January 2016);
- Annual Improvements to IFRS Standards 2014-2016 Cycle (issued on 8 December 2016) – Amendments to IFRS 12.

The Group has decided not to apply earlier any Standard, Interpretation or Amendment that has been issued, but has not yet become effective in light of the EU regulations.

(g) New standards and interpretations that have been issued but have not yet become effective

Implementation of IFRS 15

International Financial Reporting Standard 15 Revenue from Contracts with Customers ("IFRS 15") was issued in May 2014, and then amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted.

The Group plans to adopt the new standard on the required effective date using the modified retrospective method.

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 (Residential Unit).

a) Sale of goods

Currently revenues from the sale of Residential Unit are recognized under IAS 18 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, obtaining 100% of payment and transfer of the key), after a valid building occupancy permit has been obtained by the Group. According to IFRS 15 the entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good to a customer. A Residential Unit is transferred when (or as) the customer obtains control of that Residential Unit.

For contracts with customers in which the sale of goods is generally expected to be the only performance obligation, adoption of IFRS 15 is not expected to have any impact on the Group's revenue and cost of sales. The Group expects the revenue recognition to occur at a point in time when control of the Residential Unit is transferred to the customer, generally on delivery of the Residential Unit and thus the moment of revenue recognition does not differ under IAS 18 and IFRS 15.

In addition to the above, the Group is considering the following:

(i) Variable consideration

Contracts with customers give rise to variable consideration as refunds, incentives or performance bonuses, which in accordance with IFRS 15, the entity estimates the amount of remuneration to which it will be entitled in exchange for the transfer of promised Residential Unit to the customers and includes part or all of the variable remuneration in the transaction price only to the extent, in which there is a high probability that there will be no reversal of a significant part of the amount of previously recognized accumulated revenues when the uncertainty about the amount of variable remuneration has ceased. In case of our Group the variable considerations are not specified in the agreements with customers and due to this fact in our opinion have not impacted our Group.

Notes to the Consolidated Financial Statements

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

Implementation of IFRS 15 (cont'd)

(ii) Warranty obligations
In all cases the Group has right to force the warranty obligations from the General Contractors and the Group does not provide any extended warranties in its contracts with customers, which could result in recognizing a service-type warranty.

b) Advances received
Under the current accounting policy Advances received from customers for the sale of residential units are not bearing interest and are presented under current liabilities. The Group is in the process of analyzing whether the contracts contain a significant financing component

Implementation of IFRS 9

In July 2014, the IASB issued the final version of International Financial Reporting Standard 9 Financial Instruments ("IFRS 9"). IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted.
The Group plans to adopt the new standard on the required effective date and will not restate comparative information.

During 2017, the Group has performed a detailed impact assessment of implementation of IFRS 9 on the accounting principles (policy) applied by the Group with respect to the Group's operations or its financial results. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9. Overall, the Group expects no significant impact on its statement of financial position and equity.

a) Classification and measurement
The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.
Debt securities held by the Group (bond loans and bank loans) will be measured at fair value through other comprehensive income, as the Group's business objective is achieved by both collecting contractual cash flows and selling financial assets.
Trade receivables are held to collect contractual cash flows and the Group does not sell trade receivables as part of factoring - they will continue to be measured at amortized cost. The Group decided to use a practical expedient and for trade receivables due in up to 12 months does not account for significant financing component.

b) Impairment
IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all trade receivables.
The Group has determined that, due to the nature of its loans and receivables, the loss allowance will not change significantly.

c) Hedge accounting
The Group does not use any hedging instruments and due to the fact this new requirement of IFRS 9 will not impact its financial statements.

Notes to the Consolidated Financial Statements

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

Implementation of IFRS 16

International Financial Reporting Standard 16 Leases ("IFRS 16") was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure.

IFRS 16 introduces a unitary model of the lessee's accounting and requires the lessee to recognize assets and liabilities resulting from each lease with a period exceeding 12 months, unless the underlying asset is of low value. At the commencement date, the lessee recognizes an asset representing the right to use the underlying asset and a liability to make lease payments.

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. The Group has not decided to IFRS 16 early adoption.

At the date of the authorization of these consolidated financial statements for publication, the Management Board is in the process of assessing the impact of the application of IFRS 16 on the accounting principles (policy) applied by the Group with respect to the Group's operations or its financial results.

3. Significant accounting policies

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

(a) Foreign currency

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

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

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

Notes to the Consolidated Financial Statements

3. Significant accounting policies (cont'd)

(b) Revenue

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

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

(c) Financial instruments

Non-derivative financial instruments

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

Non-derivative financial instruments

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
Loans and receivables	Short-term deposits	Amortized cost method
	Other current financial assets	Amortized cost method
	Loans granted to third parties	Amortized cost method
	Cash and cash equivalent	Amortized cost method
	Trade and other receivables	Amortized cost method
Other financial liabilities	Bond loans	Amortized cost method
	Loans from others	Amortized cost method
	Trade and other payables and accrued expenses	Amortized cost method
	Secured bank loans	Amortized cost method

Notes to the Consolidated Financial Statements

3. Significant accounting policies (cont'd)

(c) Financial instruments (cont'd)

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.

(d) Property and equipment

(i) Recognition and measurement

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

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

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

(ii) Depreciation

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

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

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

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

(e) Leases

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

Notes to the Consolidated Financial Statements

3. Significant accounting policies (cont'd)

(f) Investment property

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

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

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

(g) Inventories of residential units

Inventories consist of multi-family residential real estate projects to individual customers.
Inventories are measured at the lower of cost and net realizable value. The cost of inventories includes expenditure incurred relating to the construction of a project.
Costs relating to the construction of a project are included in inventories of residential units as follows:

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

Project construction costs include:
a) land or leasehold rights for land,
b) construction costs paid to the general contractor building the residential project,
c) planning and design costs,
d) perpetual usufruct fees and real estate taxes incurred during the period of construction,
e) borrowing costs to the extent they are directly attributable to the development of the project (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.

(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 the share premium.

(iii) Treasury shares

Own shares that are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Notes to the Consolidated Financial Statements

(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 or a cash generating unit's recoverable amount is estimated.
An impairment loss is recognized if the carrying amount of an asset or a cash generating unit exceeds its recoverable amount.
The recoverable amount of an asset or a cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(ii) Non-financial assets (cont'd)

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

(k) Provisions

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

Notes to the Consolidated Financial Statements

3. Significant accounting policies (cont'd)

(l) Borrowing costs

Borrowing costs directly attributable to the inventory of properties which necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of the respective assets.

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

(m) Income tax expense

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

Deferred income tax is provided, using the balance sheet method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, and for tax losses carried forward, except for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. At each reporting date deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(n) Earnings per share

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

Notes to the Consolidated Financial Statements

3. Significant accounting policies (cont'd)

(o) Share options granted

Equity-settled transactions

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

Cash-settled transactions

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

(p) Cash and cash equivalents

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

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

(q) Investment in joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Under the equity method, the investment in a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the joint venture since the acquisition date. Upon making an investment in an associate or joint venture, the amount by which the costs of such investment exceed the value of the Group's share in the net fair value of identifiable assets and liabilities of this entity is recognized as goodwill and included in the carrying amount of the underlying investment.

The statement of profit or loss reflects the Group's share of the results of operations of the joint venture. Any change in OCI of joint ventures are presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the joint venture, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

The financial statements of the joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, and then recognizes the loss as 'Share of profit/(loss) of a joint venture' in the statement of profit or loss.

Notes to the Consolidated Financial Statements

3. Significant accounting policies (cont'd)

(q) Investment in joint ventures (cont'd)

Upon loss of joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

(r) 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.

(s) Fair Value

The Group measures investment properties at fair value at each balance sheet date. In addition, fair values of financial instruments measured at amortized cost are disclosed in Note 36 and Note 37.
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market must be accessible to by the Group.
The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.
The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.
All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

Notes to the Consolidated Financial Statements

4. Standards issued but not yet effective

A number of new standards, amendments to standards and interpretations, insofar endorsed by the European Union, are not yet effective for the year ended 31 December 2017, and have not been applied in preparing these consolidated financial statements:

- IFRS 9 *Financial Instruments* (issued on 24 July 2014);- effective for financial years beginning on or after 1 January 2018;
- IFRS 14 *Regulatory Deferral Accounts* (issued on 30 January 2014) - The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard– not yet endorsed by EU at the date of approval of these financial statements - effective for financial years beginning on or after 1 January 2016;
- IFRS 15 *Revenue from Contracts with Customers* (issued on 28 May 2014), including amendments to IFRS 15 *Effective date of IFRS 15* (issued on 11 September 2015) - effective for financial years beginning on or after 1 January 2018;
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* (issued on 11 September 2014) - the endorsement process of these Amendments has been postponed by EU - the effective date was deferred indefinitely by IASB;
- IFRS 16 *Leases* (issued on 13 January 2016) - effective for financial years beginning on or after 1 January 2019;
- Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* (issued on 12 September 2016) - effective for financial years beginning on or after 1 January 2018;
- Clarifications to IFRS 15 *Revenue from Contracts with Customers* (issued on 12 April 2016) - effective for financial years beginning on or after 1 January 2018;
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions* (issued on 20 June 2016) - effective for financial years beginning on or after 1 January 2018,
- Amendments to IAS 28 *Investments in Associates and Joint Ventures* which are part of *Annual Improvements to IFRS Standards 2014-2016 Cycle* (issued on 8 December 2016) - effective for financial years beginning on or after 1 January 2018,
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* which are part of *Annual Improvements to IFRS Standards 2014-2016 Cycle* (issued on 8 December 2016) – effective for financial years beginning on or after 1 January 2018,
- IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration* (issued on 8 December 2016) - not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2018;
- Amendments to IAS 40: *Transfers of Investment Property* (issued on 8 December 2016) - not yet endorsed by EU at the date of approval of these financial statements - effective for financial years beginning on or after 1 January 2018;
- IFRS 17 *Insurance Contracts* (issued on 18 May 2017) - not yet endorsed by EU at the date of approval of these financial statements - effective for financial years beginning on or after 1 January 2021;
- IFRIC 23 *Uncertainty over Income Tax Treatments* (issued on 7 June 2017) - not yet endorsed by EU at the date of approval of these financial statements - effective for financial years beginning on or after 1 January 2019,
- Amendments to IFRS 9: *Prepayment Features with Negative Compensation* (issued on 12 October 2017) - not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2019;
- Amendments to IAS 28: *Long-term Interests in Associates and Joint Ventures* (issued on 12 October 2017) - not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2019;
- *Annual Improvements to IFRS Standards 2015-2017 Cycle* (issued on 12 December 2017) - not yet endorsed by EU at the date of approval of these financial statements; effective for financial years beginning on or after 1 January 2019,
- Amendments to IAS 19: *Plan Amendment, Curtailment or Settlement* (issued on 7 February 2018) - not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2019.

The effective dates are dates provided by the International Accounting Standards Board. Effective dates in the European Union may differ from the effective dates provided in standards and are published when the standards are endorsed by the European Union.

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

Notes to the Consolidated Financial Statements

5. Segment reporting

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

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

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

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

In thousands of Polish Zlotys (PLN) — **As at 31 December 2017**

	Warsaw				**Poznań**		**Wrocław**		**Szczecin**		**Unallocated**	**IFRS adjustments**	**Total**
	Apartments	**Houses**	**Joint venture**	**Rental**	**Apartments**	**Houses**	**Apartments**	**Houses**	**Apartments**	**Houses**			
Segment assets	381,163	31,572	94,174	8,743	91,267	-	70,139	-	84,344	-	-	(82,090)	679,312
Unallocated assets	-	-	-	-	-	-	-	-	-	-	26,487	-	26,487
Total assets	**381,163**	**31,572**	**94,174**	**8,743**	**91,267**	**-**	**70,139**	**-**	**84,344**	**-**	**26,487**	**(82,090)**	**705,799**
Segment liabilities	104,079	443	76,928	-	20,492	-	7,879	-	18,690	-	-	(76,928)	151,583
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	212,204	-	212,204
Total liabilities	**104,079**	**443**	**76,928**	**-**	**20,492**	**-**	**7,879**	**-**	**18,690**	**-**	**212,204**	**(76,928)**	**363,787**

In thousands of Polish Zlotys (PLN) — **As at 31 December 2016**

	Warsaw				**Poznań**		**Wrocław**		**Szczecin**		**Unallocated**	**IFRS adjustments**	**Total**
	Apartments	**Houses**	**Joint venture**	**Rental**	**Apartments**	**Houses**	**Apartments**	**Houses**	**Apartments**	**Houses**			
Segment assets	334,363	31,762	110,712	8,743	137,117	-	76,271	328	68,313	7,725	-	(94,062)	681,272
Unallocated assets	-	-	-	-	-	-	-	-	-	-	62,139	-	62,139
Total assets	**334,363**	**31,762**	**110,712**	**8,743**	**137,117**	**-**	**76,271**	**328**	**68,313**	**7,725**	**62,139**	**(94,062)**	**743,411**
Segment liabilities	79,117	819	99,503	-	49,051	-	6,188	-	5,278	-	-	(99,503)	140,453
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	241,082	-	241,082
Total liabilities	**79,117**	**819**	**99,503**	**-**	**49,051**	**-**	**6,188**	**-**	**5,278**	**-**	**241,082**	**(99,503)**	**381,535**

Notes to the Consolidated Financial Statements

5. Segment reporting (cont'd)

In thousands of Polish Zlotys (PLN) — **For the year ended 31 December 2017**

	Warsaw				**Poznań**		**Wrocław**		**Szczecin**		**Unallocated**	**IFRS adjustments**	**Total**
	Apartments	**Houses**	**Joint venture**	**Rental**	**Apartments**	**Houses**	**Apartments**	**Houses**	**Apartments**	**Houses**			
Revenue	121,219	1,008	94,916	835	72,080	-	32,284	-	4,318	-	-	(94,916)	231,744
Segment result	25,176	(84)	27,343	498	874	-	5,284	-	(3,107)	-	-	(16,032)	39,952
Unallocated result		-		-	-	-	-	-	-	-	(19,197)		(19,197)
Result from operating activities	**25,176**	**(84)**	**27,343**	**498**	**874**	**-**	**5,284**	**-**	**(3,107)**	**-**	**(19,197)**	**(16,032)**	**20,755**
Net finance income/ (expenses)	117	31	110	-	(11)	-	7	-	(11)	-	(6,998)	(110)	(6,865)
Profit/(loss) before tax	**25,293**	**(53)**	**27,453**	**498**	**863**	**-**	**5,291**	**-**	**(3,118)**	**-**	**(26,195)**	**(16,142)**	**13,890**
Income tax expenses													(2,593)
Profit/(loss) for the year													**11,297**
Capital expenditure	**-**	**-**	**-**	**-**	**-**	**-**	**273**	**-**	**-**	**-**	**254**	**-**	**527**

In thousands of Polish Zlotys (PLN) — **For the year ended 31 December 2016**

	Warsaw				**Poznań**		**Wrocław**		**Szczecin**		**Unallocated**	**IFRS adjustments**	**Total**
	Apartments	**Houses**	**Joint venture**	**Rental**	**Apartments**	**Houses**	**Apartments**	**Houses**	**Apartments**	**Houses**			
Revenue	387,810	1,331	-	914	64,256	-	11,143	-	19,308	-	-	-	484,762
Segment result	110,506	(69)	(1,120)	588	1,671	-	(1,238)	(2,274)	(143)	(5)	-	(260)	107,656
Unallocated result	-	-	-	-	-	-	-	-	-	-	(23,104)	-	(23,104)
Result from operating activities	**110,506**	**(69)**	**(1,120)**	**588**	**1,671**	**-**	**(1,238)**	**(2,274)**	**(143)**	**(5)**	**(23,104)**	**(260)**	**84,552**
Net finance income/ (expenses)	89	(3)	37	-	65	-	112	-	-	(1)	(7,219)	(37)	(6,957)
Profit/(loss) before tax	**110,595**	**(72)**	**(1,083)**	**588**	**1,736**	**-**	**(1,126)**	**(2,274)**	**(143)**	**(6)**	**(30,323)**	**(297)**	**77,595**
Income tax expenses													(12,497)
Profit/(loss) for the year													**65,098**
Capital expenditure	**740**	**730**	**-**	**-**	**-**	**-**	**50**	**-**	**-**	**-**	**158**	**-**	**1,678**

Notes to the Consolidated Financial Statements

6. Revenue

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	2017	2016
Espresso II & III	57,291	53,289
Kamienica Jeżyce	51,553	36,518
Moko	41,061	120,668
Vitalia I	29,375	-
Młody Grunwald I & II	7,604	27,739
Młody Grunwald III	11,655	-
Panoramika II	4,319	19,308
Chilli IV	1,269	-
Impressio	2,909	11,143
Sakura	6,737	7,719
Tamka	4,236	21,414
Verdis	1,950	1,780
Naturalis I, II & III	2,058	5,465
Sale of land (1)	1,600	-
Other (2)	8,127	4,600
Nova Królikarnia (see note 39)	-	175,119
Total revenue	**231,744**	**484,762**

(1) On 19 July 2017, the Company sold to a third party (the right of perpetual usufruct) of real properties located in Warsaw.

(2) Other revenues are mainly associated with fee income for management services provided to joint ventures and to Nova Krolikarnia project and with rental revenues, as well as with sales of parking places and storages in other projects that were completed in previous years and 2 units delivered in Constans and Espresso I project.

7. Cost of sales

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	2017	2016
Espresso II & III	47,327	43,256
Kamienica Jeżyce	48,287	33,875
Moko	28,111	81,565
Vitalia I	23,102	-
Młody Grunwald I & II	7,750	27,233
Młody Grunwald III	11,689	-
Panoramika II	4,250	19,113
Chilli IV	1,173	-
Impressio	3,022	11,473
Sakura	6,295	6,802
Tamka	2,959	14,385
Verdis	1,549	1,412
Naturalis I, II & III	1,920	4,976
Sale of land	1,221	-
Other	1,697	1,863
Write-down of inventory	3,314	2,269
Nova Królikarnia (see note 39)	-	117,850
Total cost of sales	**193,666**	**366,072**

Notes to the Consolidated Financial Statements

8. Selling and marketing expenses

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	2017	2016
Advertising	3,122	4,357
Brokerage fees	1,339	2,214
Depreciation	494	397
Other	729	1,115
Total selling and marketing expenses	**5,684**	**8,083**

9. Administrative expenses

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	*Note*	2017	2016
Personnel expenses	*10*	12,657	16,976
External services		3,903	3,205
Consulting fees to main shareholder		840	-
Materials and energy		560	580
Depreciation		471	590
Taxes and charges		150	152
Other		754	694
Total administrative expenses		**19,335**	**22,197**

10. Personnel expenses

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	*Note*	2017	2016
Wages and salaries		10,057	13,879
Incentive plan linked to financial results		396	999
Share based payment	*35*	341	348
Social security and other benefits		1,863	1,750
Total personal expenses		**12,657**	**16,976**
Average number of personnel employed [(1)]		**68**	**67**

(1) All employees are employed in Poland.

Notes to the Consolidated Financial Statements

11. Other expenses

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	**2017**	**2016**
Maintenance expense of unsold units	2,667	1,404
Cost of repairs and defects	954	638
Expense for contractual penalties and compensation	61	182
Settlement of VAT related to expenses in prior year	335	638
Write-down of trade receivables	22	53
Cost of research and due diligence of new projects	96	115
Other expenses	292	324
Total other expenses	**4,427**	**3,354**

12. Other income

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	**2017**	**2016**
Revenues from contractual penalties and compensation	112	228
Rental income from inventory	636	529
Net profit on sale of property and equipment	5	70
Other income	59	49
Total other income	**812**	**876**

Notes to the Consolidated Financial Statements

13. Finance income and expense

For the year ended 31 December 2017 *In thousands of Polish Zlotys (PLN)*	**Total amount**	**Amount capitalized**	**Recognized in the statement of comprehensive income**
Interest income on granted loans	329	-	329
Interest income on bank deposits	413	-	413
Other finance income	117	-	117
Finance income	**859**	**-**	**859**
Interest expense on financial liabilities	(12,075)	5,623	(6,452)
Commissions and fees	(2,603)	1,564	(1,039)
Other finance expense	(233)	-	(233)
Finance expense	**(14,911)**	**7,187**	**(7,724)**
Net finance expense	**(14,052)**	**7,187**	**(6,865)**

For the year ended 31 December 2016 *In thousands of Polish Zlotys (PLN)*	**Total amount**	**Amount capitalized**	**Recognized in the statement of comprehensive income**
Interest income on granted loans	584	-	584
Interest income on bank deposits	1,204	-	1,204
Other finance income	112	-	112
Finance income	**1,900**	**-**	**1,900**
Interest expense on financial liabilities	(12,601)	5,016	(7,585)
Commissions and fees	(3,187)	2,015	(1,172)
Other finance expense	(100)	-	(100)
Finance expense	**(15,888)**	**7,031**	**(8,857)**
Net finance expense	**(13,988)**	**7,031**	**(6,957)**

Notes to the Consolidated Financial Statements

14. Income tax

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	2017	2016
Current tax		
Current period	2,734	1,493
Taxation in respect of previous periods	(66)	(17)
Total current tax expense/(benefit)	**2,668**	**1,476**
Deferred tax		
Origination and reversal of temporary differences	(1,607)	5,870
Tax losses utilized/(recognized)	1,532	5,151
Total deferred tax expense/(benefit)	**(75)**	**11,021**
Total income tax expense/(benefit)	**2,593**	**12,497**

Reconciliation of effective tax rate

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	2017	2016
Profit/(loss) for the year	11,297	65,098
Total income tax expense/(benefit)	2,593	12,497
Profit/(loss) before income tax	**13,890**	**77,595**
Expected income tax using the Polish tax rate (19%)	**2,639**	**14,743**
***Tax effect of*:**		
Taxes in respect of previous periods	(66)	(17)
Non-deductible expenses, net	92	61
Movement in unrecognized deferred tax assets on loss carry forward in Poland	(7)	(2,323)
Movement in unrecognized deferred tax assets on loss carry forward in the Netherlands	1,198	-
Tax benefit in connection with the organizational restructuring of the Group	(1,475)	(3,391)
Tax assets transferred with Nova Królikarnia transaction	-	3,408
Other differences	212	16
Tax expense/(benefit) for the period	**2,593**	**12,497**
Effective tax rate	**18.67%**	**16.11%**

Notes to the Consolidated Financial Statements

15. Property and equipment

For the year ended 31 December 2017 *In thousands of Polish Zlotys (PLN)*	**Vehicles**	**Equipment**	**Building**	**Total**
Cost or deemed cost				
Balance at 1 January	1,305	2,769	8,558	12,632
Additions	100	427	-	527
Sales and disposals	(389)	(730)	(442)	(1,561)
Closing balance	**1,016**	**2,466**	**8,116**	**11,598**
Depreciation and impairment losses				
Balance at 1 January	674	1,511	1,624	3,809
Depreciation for the period	211	492	262	965
Sales and disposals	(260)	(728)	(357)	(1,345)
Closing balance	**625**	**1,275**	**1,529**	**3,429**
Carrying amounts				
At 1 January	631	1,258	6,934	8,823
Closing balance	**391**	**1,191**	**6,587**	**8,169**

For the year ended 31 December 2016 *In thousands of Polish Zlotys (PLN)*	**Vehicles**	**Equipment**	**Building**	**Total**
Cost or deemed cost				
Balance at 1 January	1,372	1,976	8,645	11,993
Additions	155	1,523	-	1,678
Sales and disposals	(222)	(730)	(87)	(1,039)
Closing balance	**1,305**	**2,769**	**8,558**	**12,632**
Depreciation and impairment losses				
Balance at 1 January	642	1,189	1,290	3,121
Depreciation for the period	252	395	340	987
Sales and disposals	(220)	(73)	(6)	(299)
Closing balance	**674**	**1,511**	**1,624**	**3,809**
Carrying amounts				
At 1 January	730	787	7,355	8,872
Closing balance	**631**	**1,258**	**6,934**	**8,823**

Impairment loss

In the years ended 31 December 2017 and 31 December 2016, the Group did not recognize any impairment loss with respect to property and equipment.

Notes to the Consolidated Financial Statements

16. Investment property

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	**2017**	**2016**
Balance at 1 January	8,743	8,743
Sales	-	-
Change in fair value during the year	-	-
Balance as at 31 December, including:	**8,743**	**8,743**
Cost	***4,058***	***4,058***
Fair value adjustments	***4,685***	***4,685***

As at 31 December 2017, the investment property included property held for long-term rental yields and capital appreciation, and were not occupied by the Group. The investment property consists of two real estate objects located in Warsaw:

i) a plot of land (71, Gwiaździsta Street) and an office building with an aggregate usable floor space of 1,318 m^2 located on this plot that is leased to third parties under lease agreements with an indefinite term subject to a three-month notice period for termination ("Bielany IP),

ii) one commercial (office) unit located at 57, KEN Avenue (in the Gemini I project), with a total aggregate usable floor space of 89 m^2 leased to third parties with an indefinite term.

Investment property is valued at fair value determined as at 31 December 2017 and as at 31 December 2016 by the Management. The investment property has been also valued by an independent appraiser, having an appropriate recognized professional qualification, based on current prices on an active market. Both valuations came up with similar results.

The Bielany IP was valued based on the discounted cash flow approach, including the assumption as to an annual discount rate of 7.5% (during a 6 year forecast period), a capitalization exit yield of 7.5%, a monthly rate of PLN 39 per m^2 and a long term vacancy rate of 5%. The assumptions as at the end of 2017 were very similar as at the end of 2016.

If the yields used for the appraisals of investment property on 31 December 2017, had been 100 basis points higher than was the case at that time, the value of the investments would have been 12% lower (31 December 2016: 12% lower). In this situation, the Company's shareholders' equity would have been PLN 1.0 million lower (31 December 2016: 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.

During the year ended 31 December 2017 and 2016 the rental income from investment property amounted to PLN 835 thousand and PLN 914 thousand, respectively.

The investment property is currently occupied.

Notes to the Consolidated Financial Statements

17. Loans granted to third parties

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

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	**2017**	**2016**
Opening balance	**508**	**458**
Loans repaid	(449)	-
Interest repaid	(75)	-
Accrued interest	16	50
Total closing balance	**-**	**508**
Closing balance includes:		
Current assets	-	508
Non-current assets	-	-
Total closing balance	-	**508**

The loans were granted to one of the shareholders of Ronson Espresso Sp. z o.o. as at 31 December 2016 and were repaid to the Company during the year ended 31 December 2017. The loans had a variable rate of 11.5% (variable interest was charged based on the latest interest rate as charged on the construction credit/loan granted by the banks to the Group and increased by 7%, and updated at the beginning of each quarter).

18. Investment in joint ventures

As at 31 December *In thousands of Polish Zlotys (PLN)*	**2017**	**2016**
Loans granted	6,922	22,485
Share in net equity value of joint ventures	5,162	(5,835)
The Company's carrying amount of the investment	**12,084**	**16,650**
Presented as Loans granted to joint ventures (current assets)	(6,922)	(15,906)
Investment in joint ventures	**5,162**	**744**

Share of profit/(loss) from joint ventures

The Investment in joint ventures comprise the Company’s 50% interest in the joint ventures companies Ronson IS sp. z o.o. and in Ronson IS Sp. z o.o. Sp.k.. Both joint ventures are involved in the development and sale of residential units in Warsaw. The investments in joint ventures are accounted for using the equity method.

Notes to the Consolidated Financial Statements

18. Investment in joint ventures (cont'd)

Share of profit/(loss) from joint ventures (cont'd)

The table below present the movements in the share in net equity value of joint ventures:

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	**2017**	**2016**
Opening balance	**(3,272)**	**(1,892)**
Share of profit/(loss) from joint ventures		
Net result from joint ventures during the period	10,997	(1,914)
Offsetting net results of the joint ventures with intercompany interest during the period	314	534
Share of profit/(loss) from joint ventures	**11,311**	**(1,380)**
Total share of profit/(loss) from joint ventures	**8,039**	**(3,272)**
Total net results of the joint ventures that were offset with intercompany interest as at the end on the period	(2,877)	(2,563)
Total closing balance	**5,162**	**(5,835)**

Summarised financial information of the joint ventures is presented below:

As at 31 December *In thousands of Polish Zlotys (PLN)*	**2017**	**2016**
Assets		
Inventory	60,268	86,466
Cash and cash equivalents	20,428	2,663
Other current assets	13,478	21,583
Liabilities		
Long-term loans from shareholders	(13,839)	(46,191)
Other current liabilities	(70,011)	(76,191)
Equity	**10,324**	**(11,670)**
Company share	**5,162**	**(5,835)**

Notes to the Consolidated Financial Statements

18. Investment in joint ventures (cont'd)

Share of profit/(loss) from joint ventures (cont'd)

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

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	2017	2016
Revenue	94,916	-
Cost of sales	(66,266)	-
Gross profit	**28,650**	**-**
Administrative expenses *	(5,883)	(2,102)
Selling and marketing expenses	(240)	(706)
Other income/(cost)	(15)	11
Finance income	123	49
Finance expense	(641)	(1,080)
Profit/(loss) before taxation	**21,994**	**(3,828)**
Income tax benefit/(expense)	-	-
Profit for the year (continuing operations)	**21,994**	**(3,828)**
Total comprehensive income for the year (continuing operations)	**21,994**	**(3,828)**
The Company's share of profit/(loss) for the year	**10,997**	**(1,914)**

** Including management fee to Ronson Group amounted to PLN 4,831 thousand and PLN 1,677 thousand during the year 31 December 2017 and 31 December 2016, respectively.*

Loans granted to the joint ventures

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

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	2017	2016
Opening balance	**19,922**	**19,330**
Loans granted	1,000	500
Loans repaid	(17,137)	(412)
Accrued interest	627	1,068
Interest paid	(54)	(30)
Offsetting accrued interest with net results of the joint ventures during the period	(314)	(534)
	4,044	**19,922**
Total net accrued interest that were offset with net results of the joint ventures as at the end on the period	2,877	2,563
Total closing balance	**6,921**	**22,485**

As at 31 December 2017 and as at 31 December 2016 the loans bear a variable rate of 6.5% and a variable rate of 6.1% (variable interest is charged based on the latest interest rate as charged on the construction credit/loan granted by the banks to the Group and increased by 2%, and updated at beginning of each calendar year), respectively.

Notes to the Consolidated Financial Statements

19. Deferred tax assets and liabilities

Recognized deferred tax assets and liabilities

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

In thousands of Polish Zlotys (PLN)	**Opening balance 1 January 2017**	**Recognized in the statement of comprehensive income**	**Closing balance 31 December 2017**
Deferred tax assets			
Tax loss carry forward	5,205	(1,532)	3,673
Accrued interest	968	880	1,848
Accrued expense	466	(12)	454
Write-down of work in progress	1,831	569	2,400
Other	431	-	431
Total deferred tax assets	**8,901**	**(95)**	**8,806**
Deferred tax liabilities			
Difference between tax base and carrying value of inventory	13,888	(242)	13,646
Accrued interest	968	98	1,066
Fair value gain on investment property	890	-	890
Other	653	(26)	627
Total deferred tax liabilities	**16,399**	**(170)**	**16,229**
Total deferred tax benefit (see Note 14)		**(75)**	
Deferred tax assets	8,901		8,806
Deferred tax liabilities	16,399		16,229
Offset of deferred tax assets and liabilities for individual companies	(5,285)		(4,781)
Deferred tax assets reported in the Consolidated Statement of Financial Position	**3,616**		**4,025**
Deferred tax liabilities reported in the Consolidated Statement of Financial Position	**11,114**		**11,448**

Notes to the Consolidated Financial Statements

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

In thousands of Polish Zlotys (PLN)	Opening balance 1 January 2016	Recognized in the statement of comprehensive income	Closing balance 31 December 2016
Deferred tax assets			
Tax loss carry forward	10,356	(5,151)	5,205
Accrued interest	7,507	(6,539)	968
Accrued expense	564	(98)	466
Write-down of work in progress	1,928	(97)	1,831
Other	143	288	431
Total deferred tax assets	**20,498**	**(11,597)**	**8,901**
Deferred tax liabilities			
Difference between tax base and carrying value of inventory	14,374	(486)	13,888
Accrued interest	1,104	(136)	968
Fair value gain on investment property	890	-	890
Other	607	46	653
Total deferred tax liabilities	**16,975**	**(576)**	**16,399**
Total deferred tax benefit (see Note 14)		**11,021**	
Deferred tax assets	20,498		8,901
Deferred tax liabilities	16,975		16,399
Offset of deferred tax assets and liabilities for individual companies	(9,195)		(5,285)
Deferred tax assets reported in the Consolidated Statement of Financial Position	**11,303**		**3,616**
Deferred tax liabilities reported in the Consolidated Statement of Financial Position	**7,780**		**11,114**

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 46,347 thousand. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Group will realize the benefits of these deductible differences. The amount of the deferred tax asset which is considered realizable, could however be reduced in the near term if estimates of future taxable income during the tax loss carry-forward period are reduced.

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

Notes to the Consolidated Financial Statements

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

Tax losses carry forward

As at 31 December	2017			2016		
In thousands of Polish Zlotys (PLN)	Recognized tax losses	Unrecognized tax losses	Total tax losses	Recognized tax losses	Unrecognized tax losses	Total tax losses
Tax loss 2012 carried forward	-	-	-	-	2,831	2,831
Tax loss 2013 carried forward	-	611	611	86	984	1,070
Tax loss 2014 carried forward	13,596	150	13,746	20,757	150	20,907
Tax loss 2015 carried forward	5,734	87	5,821	6,554	87	6,641
Tax loss 2016 carried forward	-	145	145	-	143	143
Tax loss 2017 carried forward	-	146	146	-	-	-
Total tax losses carried forward	**19,330**	**1,139**	**20,469**	**27,397**	**4,195**	**31,592**

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

In thousands of Polish Zlotys (PLN)	As at 31 December 2017
2018	-
2019	2,687
2020	986
After 2020	-
Total deferred tax asset in respect of tax losses carried forward	**3,673**

Movement in unrecognized deferred tax assets on tax losses carried forward

Unrecognized deferred tax assets on tax losses carried forward in Poland are presented in the table below:

In thousands of Polish Zlotys (PLN)	Balance 1 January 2016	Tax losses expired	Additions/ (Realizations)	Balance 31 December 2016	Tax losses expired	Additions/ (Realizations)	Balance 31 December 2017
Tax losses	3,337	(217)	(2,323)	797	(574)	(7)	216
Total	**3,337**	**(217)**	**(2,323)**	**797**	**(574)**	**(7)**	**216**

In addition, the Company is not recognizing deferred tax assets on tax losses carried forward in the Netherlands. The accumulated Dutch tax losses available for carry forward as per 31 December 2017 are estimated to be PLN 11,804 thousand (2016: PLN 6,667 thousand).

Unrecognized deferred tax assets

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

The Company did not recognize the entire deferred tax asset at consolidation level resulting from contributions as the recoverability of such assets is uncertain. Total unrecognized deferred tax assets as at 31 December 2017 are estimated to be PLN 8,570 thousand (31 December 2016: PLN 10,175 thousand).

Unrecognized deferred tax liabilities

There are no unrecognized deferred tax liabilities.

Ronson Europe N.V. functional currency

During 2016 the Company applied to the Dutch tax authorities and changed its functional currency from EUR to PLN starting from 1 January 2017.

Notes to the Consolidated Financial Statements

20. Inventory

For the year ended 31 December 2017:

In thousands of Polish Zlotys (PLN)	Opening balance 1 January 2017	Transferred to Trade and other receivables and prepayments	Sales of land	Transferred to finished units	Additions	Closing balance 31 December 2017
Land and related expense	260,851	(2,315)	(1,221)	(21,485)	2,870	238,700
Construction costs	51,783	-	-	(77,890)	114,454	88,347
Planning and permits	14,437	-	-	(4,308)	5,254	15,383
Borrowing costs (1)	41,142	(151)	-	(8,337)	7,187	39,841
Other	2,805	(5)	-	(1,415)	1,859	3,244
Work in progress	**371,018**	**(2,471)**	**(1,221)**	**(113,435)**	**131,624**	**385,515**

In thousands of Polish Zlotys (PLN)	Opening balance 1 January 2017	Transferred to property and equipment		Transferred from work in progress	Recognized in the statement of comprehensive income	Closing balance 31 December 2017
Finished goods	**215,582**	**-**	**-**	**113,435**	**(189,353)**	**139,664**

In thousands of Polish Zlotys (PLN)	Opening balance 1 January 2017	Transferred to Trade and other receivables and prepayments	Revaluation write-down recognized in statement of comprehensive income		Closing balance 31 December 2017
			Increase	Utilization	
Write-down	**(12,502)**	**2,269**	**(3,314)**	**466**	**(13,081)**
Total inventory at the lower of cost or net realizable value	**574,098**				**512,098**

(1) Borrowing costs are capitalized to the value of inventory with 6.13% average effective capitalization interest rate.

Notes to the Consolidated Financial Statements

20. Inventory (cont'd)

For the year ended 31 December 2016:

In thousands of Polish Zlotys (PLN)	Opening balance 1 January 2016	Sale of project to (former) shareholder (1)	Transferred to finished units	Additions	Closing balance 31 December 2016
Land and related expense	342,699	(88,549)	(61,644)	68,345	260,851
Construction costs	154,067	(18,755)	(232,849)	149,320	51,783
Planning and permits	22,629	(2,513)	(11,037)	5,358	14,437
Borrowing costs (2)	65,533	(2,567)	(28,855)	7,031	41,142
Other	5,261	(1,221)	(4,481)	3,246	2,805
Work in progress	**590,189**	**(113,605)**	**(338,866)**	**233,300**	**371,018**

In thousands of Polish Zlotys (PLN)	Opening balance 1 January 2016		Transferred from work in progress	Recognized in the statement of comprehensive income	Closing balance 31 December 2016
Finished goods	**122,511**	**-**	**338,866**	**(245,795)**	**215,582**

In thousands of Polish Zlotys (PLN)	Opening balance 1 January 2016	Revaluation write-down recognized in statement of comprehensive income		Closing balance 31 December 2016
		Increase	Utilization	
Write-down	**(11,413)**	**(2,269)**	**1,180**	**(12,502)**
Total inventory at the lower of cost or net realizable value	**701,287**			**574,098**

(1) See Note 39

(2) Borrowing costs are capitalized to the value of inventory with 6.51% average effective capitalization interest rate.

Write-down revaluating the inventory:

The company internally assessed the net realizable value of the inventory and decreased the value when the net realizable value was lower than the cost amount. In view of the situation in the property market in which the Group operates, during the year ended 31 December 2017 and 31 December 2016 the Group performed an inventory review with regard to its valuation to net realizable value based on the most reliable evidence available to the Group. As a result, during the years ended 31 December 2017 and 31 December 2016, the Group made a write-down adjustment of PLN 3,314 thousand (related to Młody Grunwald and Panoramika projects) and amount of PLN 2,269 thousand (related to Sadków project), respectively, which is included as part of cost of sales in the Consolidated Statement of Profit or Loss and Comprehensive Income. The Group examined a possible write-down on inventory for each project separately, according to the projection of revenues net of cost of sales.

The valuation of Inventory is as follows:

As at 31 December *In thousands of Polish Zlotys (PLN)*	**2017**	**2016**
Valued at cost	373,600	477,237
Valued at net realizable value	138,498	96,861
Total inventory	**512,098**	**574,098**

Notes to the Consolidated Financial Statements

20. Inventory (cont'd)

For information about future commitments to the general contractor for construction services related to inventory construction, see Note 38.
For information about the balance sheet value of inventory used to secure banks loans and bond loans (series F and R), see Note 28.

21. Advances for land

In January 2017 and in February 2018, the Company entered into conditional sale agreements concerning the acquisition of real properties located in Warsaw, Ursus district, and into certain cooperation agreements (hereinafter "Properties"). The Properties are covered by a local zoning plan which allows for the development of multi-family housing projects of approximately 1,600 apartments. The total sales price for the acquisition of the Properties plus the value of the work which must be performed to allow the Company to carry out the housing projects (such work being the responsibility of the sellers) has been agreed at the amount of PLN 81.75 million plus applicable VAT (from the agreed price an amount of PLN 79.0 million plus applicable VAT has been paid until 31 December 2017).

The final agreements regarding the transfer of part of the Properties to the Company expected to be concluded during March 2018, the remaining part expected to be transferred by December 2019. That will allow the Company to commence the first stage of the project during 2018.

Advances for land also include PLN 1.1 million in connection with other related and predevelopment expenses and property taxes for Ursus Land.

22. Trade and other receivables and prepayments

As at 31 December *In thousands of Polish Zlotys (PLN)*	**2017**	**2016**
Value added tax (VAT) receivables	8,427	6,906
Trade and other receivables	2,398	2,095
Prepayments	879	1,144
Total trade and other receivables and prepayments	**11,704**	**10,145**

As at 31 December 2017 and 31 December 2016, the Group had no allowance for doubtful debts.
During the year ended 31 December 2017 and 31 December 2016, the Group wrote down an amount of PLN 22 thousand and PLN 53 thousand, respectively as irrecoverable debts included in trade and other receivables.

Notes to the Consolidated Financial Statements

23. Other current financial assets

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

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

24. Cash and cash equivalents

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

As at 31 December *In thousands of Polish Zlotys (PLN)*	**2017**	**2016**
Cash at bank and in hand	43,020	52,242
Short-term deposit	7,750	13,699
Restricted cash	14,090	3,115
Total cash and cash equivalents	**64,860**	**69,056**

Cash at bank earns interest at floating rates based on daily bank deposit rates. As at 31 December 2017 and 31 December 2016 the Group held in saving accounts amounting to PLN 31,646 thousand and PLN 44,761 thousand, respectively. As at 31 December 2017 and 31 December 2016 the saving accounts that earn interest rates varying between 1.10% - 1.30% and 1.75% - 1.95%, 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 2017 and 31 December 2016, they earn interest at the respective short-term deposit rates varying between 0.76% - 1.5% and 1.9% - 3.2%, respectively.

Restricted cash are pledge to the benefit of banks for securing construction loans.

For information about the fair value of cash and cash equivalents see Note 36.

25. Shareholders' equity

Share capital

The authorized share capital of the Company consists of 800,000,000 shares of EUR 0.02 par value each. The number of issued and outstanding ordinary shares as at 31 December 2017 amounted to 164,010,813 (as at 31 December 2016: 272,360,000 shares issued and outstanding, while the number of shares in circulation amounted to 164,010,183). On 1 March 2017, 108,349,187 shares which the Company held in treasury since 23 December 2016, were redeemed. This transaction is disclosed in the Company's Annual Consolidated Financial Statements for the year ended 31 December 2016 (see also Note 39).
The number of outstanding 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.

Notes to the Consolidated Financial Statements

25. Shareholders' equity (cont'd)

Dividend

During the year ended 31 December 2017, an interim dividend for the financial year 2016 amounting to PLN 14,761 thousands total or PLN 0.09 per ordinary share, was distributed (paid on 23 March 2017) and a final dividend for the financial year 2016 amounting to PLN 16,401 thousands total or PLN 0.10 per ordinary share, was distributed (paid on 10 August 2017). During the year ended 31 December 2016, a dividend amounting to PLN 21,789 thousands total or PLN 0.08 per ordinary share, was distributed to the Company's shareholders.

Treasury shares

On 23 December 2016, the Company acquired 108,349,187 own shares from one of its former main shareholders, I.T.R 2012 B.V., for PLN 1.30 per share amounting to a total price of PLN 140,854 thousand. Reference is made to Note 39.
All of the treasury shares have been redeemed on 1 March 2017.

26. Non-controlling interests

Movements in non-controlling interests during the year ended 31 December 2017 and 31 December 2016 are as follows:

As at 31 December *In thousands of Polish Zlotys (PLN)*	**2017**	**2016**
Opening balance	2,290	1,723
Comprehensive income/(loss) attributable to non-controlling interests	1,833	567
Closing balance	**4,123**	**2,290**

Summarised financial information of Ronson Espresso Sp. z o.o. is presented below:

As at 31 December *In thousands of Polish Zlotys (PLN)*	**2017**	**2016**
Assets		
Property and equipment	40	144
Inventory	40,398	63,427
Cash and cash equivalents	17,092	3,980
Other current assets	3,029	3,245
Liabilities		
Long-term loans from shareholders	-	(8,703)
Secured bank loans	-	(2,531)
Advances received	(40,248)	(47,382)
Other current liabilities	(6,484)	(9,330)
Equity	**13,827**	**2,850**

Notes to the Consolidated Financial Statements

26. Non-controlling interests (cont'd)

The summarised statement of comprehensive income for Ronson Espresso Sp. z o.o. in aggregate is as follows:

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	**2017**	**2016**
Revenue	57,623	53,289
Cost of sales	(42,941)	(38,947)
Gross profit	**14,682**	**14,342**
Administrative expenses	(1,333)	(1,934)
Selling and marketing expenses	(528)	(1,139)
Other income/(expenses)	(401)	(207)
Finance income	116	114
Finance expense	(164)	(1,087)
Profit/(loss) before taxation	**12,372**	**10,089**
Income tax benefit/(expense)	(1,395)	(2,850)
Profit/(loss) for the year (continuing operations)	**10,977**	**7,239**
Total comprehensive income for the year (continuing operations)	**10,977**	**7,239**

27. Net earnings per share

Basic and diluted earnings per share

Basic earnings per share amounts are calculated by dividing net profit/(loss) attributable to equity holders of the parent company for the year by the weighted average number of ordinary shares outstanding and in circulation during the year. Diluted earnings per share amounts are calculated by dividing the net profit/(loss) attributable to equity holders of the parent company for the year by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive instruments into ordinary shares, no such instruments exists as at 31 December 2017 and 2016.

Weighted average number of ordinary shares (basic):

For the year ended 31 December	**2017**	**2016**
Net profit/(loss) attributable to equity holders of the parent company *(in thousands of Polish Zlotys)*	9,464	64,531
Balance at beginning of the period	164,010,813	272,360,000
Weighted average number of ordinary shares (basic)	**164,010,813**	**269,985,223**
Basic earnings per share *(in Polish Zlotys)*	**0.058**	**0.239**

There have been no other transactions involving ordinary shares between the reporting date and the date of authorization of these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

28. Loans and borrowings

As at 31 December *In thousands of Polish Zlotys (PLN)*	***Note***	**2017**	**2016**
Bond loans	*29*	197,308	222,591
Secured bank loans	*30*	13,920	1,941
Loans from third parties	*31*	-	1,560
Total loans and borrowings		**211,228**	**226,092**

Information about the contractual terms of the Group's interest-bearing loans and borrowings is presented in the table below. For more information about the Group's exposure to interest rate, see Note 40.

Loans as at 31 December 2017:

In thousands of Polish Zlotys (PLN)	**Currency**	**Nominal interest rate**	**Year of maturity**	**Capital**	**Accrued interest**	**Charges and fees**	**Carrying value**
Bond loans series F	PLN	Wibor + 3.50%	2018	22,160	132	(54)	22,238
Bond loans series H	PLN	Wibor + 4.25%	2018	5,000	31	(4)	5,027
Bond loans series I	PLN	Wibor + 4.00%	2019	10,000	253	(9)	10,244
Bond loans series J	PLN	Wibor + 3.60%	2019	15,500	165	(101)	15,564
Bond loans series K	PLN	Wibor + 3.60%	2019	4,500	9	(32)	4,477
Bond loans series L	PLN	Wibor + 3.50%	2018	15,000	7	(53)	14,954
Bond loans series M	PLN	Wibor + 3.65%	2020	10,000	191	(105)	10,086
Bond loans series N	PLN	Wibor + 3.60%	2019	10,000	160	(105)	10,055
Bond loans series O	PLN	Wibor + 3.50%	2019	10,000	122	(85)	10,037
Bond loans series P	PLN	5.25%	2020	10,000	62	(126)	9,936
Bond loans series Q	PLN	Wibor + 3.50%	2020	15,000	338	(168)	15,170
Bond loans series R	PLN	Wibor + 2.85%	2021	50,000	237	(643)	49,594
Bond loans series S	PLN	Wibor + 3.40%	2021	20,000	35	(109)	19,926
Subtotal (Bond loans)				**197,160**	**1,742**	**(1,594)**	**197,308**
Bank loans	PLN	Wibor + 2.8%	2018	4,844	-	(79)	4,765
Bank loans	PLN	Wibor + 2.8%	2019	9,841	-	(686)	9,155
Subtotal (Bank loans)				**14,685**	**-**	**(765)**	**13,920**
Total				**211,845**	**1,742**	**(2,359)**	**211,228**

Notes to the Consolidated Financial Statements

28. Loans and borrowings (cont'd)

Loans as at 31 December 2016:

In thousands of Polish Zlotys (PLN)	Currency	Nominal interest rate	Year of maturity	Capital	Accrued interest	Charges and fees	Carrying value
Bond loans series C	PLN	Wibor + 3.75%	2017	83,500	216	(255)	83,461
Bond loans series F	PLN	Wibor + 3.50%	2018	22,160	88	(196)	22,052
Bond loans series G	PLN	Wibor + 4.25%	2018	12,000	123	(64)	12,059
Bond loans series H	PLN	Wibor + 4.25%	2018	5,000	32	(28)	5,004
Bond loans series I	PLN	Wibor + 4.00%	2019	10,000	252	(73)	10,179
Bond loans series J	PLN	Wibor + 3.60%	2019	15,500	165	(178)	15,487
Bond loans series K	PLN	Wibor + 3.60%	2019	4,500	10	(54)	4,456
Bond loans series L	PLN	Wibor + 3.50%	2018	15,000	7	(106)	14,901
Bond loans series M	PLN	Wibor + 3.65%	2020	10,000	191	(154)	10,037
Bond loans series N	PLN	Wibor + 3.60%	2019	10,000	159	(166)	9,993
Bond loans series O	PLN	Wibor + 3.50%	2019	10,000	121	(151)	9,970
Bond loans series P	PLN	5.25%	2020	10,000	62	(173)	9,889
Bond loans series Q	PLN	Wibor + 3.50%	2020	15,000	337	(234)	15,103
Subtotal (Bond loans)				**222,660**	**1,763**	**(1,832)**	**222,591**
Bank Loans	PLN	Wibor + 2.5%-2.9%	2018	2,679	18	(756)	1,941
Subtotal (Bank loans)				**2,679**	**18**	**(756)**	**1,941**
Loans from non-controlling interest granted to consolidated subsidiaries	PLN	6.51%(1)	2017	1,556	4	-	1,560
Subtotal (others)				**1,556**	**4**	**-**	**1,560**
Total				**226,895**	**1,785**	**(2,588)**	**226,092**

(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.

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

As at 31 December *In thousands of Polish Zlotys (PLN)*	**2017**	**2016**
Inventory	250,184	284,617
Investment property	8,743	8,743
Property and equipment	5,747	5,920
Balance sheet value of pledged assets	**264,674**	**299,280**
Amount of loans and borrowings	**85,752**	**107,454**

Notes to the Consolidated Financial Statements

29. Bond Loans

The table below presents the movement in bond loans:

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	**2017**	**2016**
Opening balance	**222,591**	**190,297**
Repayment of bond loans	(95,500)	(23,684)
Proceeds from bond loans	70,000	55,000
Issue cost paid	(882)	(1,061)
Issue cost amortization	1,166	1,303
Accrued interest	11,281	11,861
Interest repayment	(11,348)	(11,125)
Total closing balance	**197,308**	**222,591**
Closing balance includes:		
Current liabilities	43,791	85,053
Non-current liabilities	153,517	137,538
Total closing balance	**197,308**	**222,591**

During the year ended 31 December 2017, the Company issued 50,000 series R bonds (total nominal value of PLN 50,000 thousand) and 20,000 series S bonds (total nominal value of PLN 20,000 thousand).

As at 31 December 2017 and as at 31 December 2016 all covenants on bond loans are met.

Series F

On 20 May 2014, the Company issued 280,000 series F bonds with a total nominal value of PLN 28,000 thousand. The nominal value of one bond amounts to PLN 100 and is equal to its issue price. In November 2016, the Company repurchased (in order of redemption) 58,400 series F bonds. As a result, the total number of outstanding bonds series F as at 31 December 2017 and as at 31 December 2016 amounted to 221,600. The remainder of series F bonds shall be redeemed on 20 May 2018. The bonds carry an interest rate composed of a base rate equal to 6 months Wibor plus a margin of 3.5%. Interest is payable semi-annually in May and November 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 20 May 2018, 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 and restrictions on related party transactions.
The series F bonds are secured by a mortgage up to PLN 42,000 thousand established by one of the Company’s Polish subsidiaries on the plots situated in Warsaw at Skierniewicka Street.

Series H

On 23 May 2014, the Company issued 50,000 series H bonds with a total nominal value of PLN 5,000 thousand. The nominal value of one bond amounts to PLN 100 and is equal to its issue price. The series H bonds was redeemed on 23 February 2018. The bonds carried an interest rate composed of a base rate equal to 6 months Wibor plus a margin of 4.25%. Interest was payable semi-annually in May and November until redemption date.
The series H bonds were not secured.

Notes to the Consolidated Financial Statements

29. Bond loans (cont'd)

Series I

On 23 January 2015, the Company issued 100,000 series I bonds with a total nominal value of PLN 10,000 thousand. The nominal value of one bond amounts to PLN 100 and is equal to its issue price. The series I bonds shall be redeemed on 25 January 2019. The bonds carry an interest rate composed of a base rate equal to 6 months Wibor plus 4.0% margin. Interest is payable semi-annually in January and July until redemption date.
The terms and conditions of the issuance of the I bonds include provisions regarding early redemption at a bondholder's request to be made prior to 25 January 2019 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 and restrictions on related party transactions.
The series I bonds are not secured.

Series J

On 21 April 2015, the Company issued 15,500 series J bonds with a total nominal value of PLN 15,500 thousand. The nominal value of one bond amounts to PLN 1,000 and is equal to its issue price. The series J bonds shall be redeemed on 19 April 2019. The bonds carry an interest rate composed of a base rate equal to 6 months Wibor plus 3.6% margin. Interest is payable semi-annually in April and October until redemption date.
The terms and conditions of the issuance of the J bonds include provisions regarding early redemption at a bondholder's request to be made prior to 19 April 2019 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 and restrictions on related party transactions.
The series J bonds are not secured.

Series K

On 18 June 2015, the Company issued 45,000 series K bonds with a total nominal value of PLN 4,500 thousand. The nominal value of one bond amounts to PLN 100 and is equal to its issue price. The series K bonds shall be redeemed on 18 June 2019. The bonds carry an interest rate composed of a base rate equal to 6 months Wibor plus 3.6% margin. Interest is payable semi-annually in June and December until redemption date.
The terms and conditions of the issuance of the K bonds include provisions regarding early redemption at a bondholder's request to be made prior to 18 June 2019 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 and restrictions on related party transactions.
The series K bonds are not secured.

Series L

On 29 December 2015, the Company issued 15,000 series L bonds with a total nominal value of PLN 15,000 thousand. The nominal value of one bond amounts to PLN 1,000 and is equal to its issue price. The series L bonds shall be redeemed on 28 December 2018. The bonds carry an interest rate composed of a base rate equal to 6 months Wibor plus 3.5% margin. Interest is payable semi-annually in June and December until redemption date.
The terms and conditions of the issuance of the L bonds include provisions regarding early redemption at a bondholder's request to be made prior to 28 December 2018 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 and restrictions on related party transactions.
The series L bonds are not secured.

Notes to the Consolidated Financial Statements

29. Bond loans (cont'd)

Series M

On 25 February 2016, the Company issued 10,000 series M bonds with a total nominal value of PLN 10,000 thousand. The nominal value of one bond amounts to PLN 1,000 and is equal to its issue price. The series M bonds shall be redeemed on 25 February 2020. The bonds carry an interest rate composed of a base rate equal to 6 months Wibor plus 3.65% margin. Interest is payable semi-annually in February and August until redemption date.
The terms and conditions of the issuance of the M bonds include provisions regarding early redemption at a bondholder's request to be made prior to 25 February 2020 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 and restrictions on related party transactions.
The series M bonds are not secured.

Series N

On 17 March 2016, the Company issued 10,000 series N bonds with a total nominal value of PLN 10,000 thousand. The nominal value of one bond amounts to PLN 1,000 and is equal to its issue price. The series N bonds shall be redeemed on 14 September 2019. The bonds carry an interest rate composed of a base rate equal to 6 months Wibor plus 3.60% margin. Interest is payable semi-annually in March and September until redemption date.
The terms and conditions of the issuance of the N bonds include provisions regarding early redemption at a bondholder's request to be made prior to 14 September 2019 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 and restrictions on related party transactions.
The series N bonds are not secured.

Series O

On 8 April 2016, the Company issued 10,000 series O bonds with a total nominal value of PLN 10,000 thousand. The nominal value of one bond amounts to PLN 1,000 and is equal to its issue price. The series O bonds shall be redeemed on 8 April 2019. The bonds carry an interest rate composed of a base rate equal to 6 months Wibor plus 3.50% margin. Interest is payable semi-annually in April and October until redemption date.
The terms and conditions of the issuance of the O bonds include provisions regarding early redemption at a bondholder's request to be made prior to 8 April 2019 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 and restrictions on related party transactions.
The series O bonds are not secured.

Series P

On 18 August 2016, the Company issued 10,000 series P bonds with a total nominal value of PLN 10,000 thousand. The nominal value of one bond amounts to PLN 1,000 and is equal to its issue price. The series P bonds shall be redeemed on 18 August 2020. The bonds carry an interest rate of 5.25%. Interest is payable quarterly in February, May, August and November until redemption date.
The terms and conditions of the issuance of the P bonds include provisions regarding early redemption at a bondholder's request to be made prior to 18 August 2020 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 and restrictions on related party transactions.
The series P bonds are not secured.

Notes to the Consolidated Financial Statements

29. Bond loans (cont'd)

Series Q

On 29 July 2016, the Company issued 15,000 series Q bonds with a total nominal value of PLN 15,000 thousand. The nominal value of one bond amounts to PLN 1,000 and is equal to its issue price. The series Q bonds shall be redeemed on 29 July 2020. The bonds carry an interest rate composed of a base rate equal to 6 months Wibor plus 3.50% margin. Interest is payable semi-annually in July and January until redemption date.
The terms and conditions of the issuance of the Q bonds include provisions regarding early redemption at a bondholder's request to be made prior to 29 July 2020 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 and restrictions on related party transactions.
The series Q bonds are not secured.

Series R

On 24 May 2017, the Company issued 50,000 series R bonds with a total nominal value of PLN 50,000 thousand. The nominal value of one bond amounts to PLN 1,000 and is equal to its issue price. The series R bonds shall be redeemed on 24 May 2021. The bonds bear interest at a variable rate based on the WIBOR rate for six-month deposits increased by a margin of 2.85%. Interest is payable semi-annually in May and November until redemption date.
The terms and conditions of the issuance of the R bonds include provisions regarding early redemption at a bondholder's request to be made prior to 24 May 2021 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 and restrictions on related party transactions.
The series R bonds are secured with a joint mortgage established by the subsidiaries of the Company up to PLN 75,000 thousand.

Series S

On 19 June 2017, the Company issued 20,000 series S bonds with a total nominal value of PLN 20,000 thousand. The nominal value of one bond amounts to PLN 1,000 and is equal to its issue price. The series S bonds shall be redeemed on 19 June 2021. The bonds bear interest at a variable rate based on the WIBOR rate for six-month deposits increased by a margin of 3.40%. Interest is payable semi-annually in June and December until redemption date.
The terms and conditions of the issuance of the S bonds include provisions regarding early redemption at a bondholder's request to be made prior to 19 June 2021 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 and restrictions on related party transactions.
The series S bonds are not secured and will not be listed.

Bond loans repaid during the year ended 31 December 2017:

On 14 June 2017 at the date of their maturity, the Company repaid all outstanding bonds series C (83,500 bonds with total nominal value of PLN 83,500 thousand). Following this repayment, the total number of outstanding bonds series C amounted to nil.
On 19 June 2017 the Company repaid all outstanding bonds series G (120,000 bonds with total nominal value of PLN 12,000 thousand). Following this repayment, the total number of outstanding bonds series G amounted to nil.

Notes to the Consolidated Financial Statements

29. Bond loans (cont'd)

Financial ratio covenants:

Series F and H:

Based on the conditions of bonds F and H in each reporting period the Company shall test the ratio of Net debt to Equity (hereinafter "Net Indebtedness Ratio). The Ratio shall not exceed 80% on the Check Date.
The Net Indebtedness Ratio is a non-GAAP Financial Measure and is calculated according to formulas provided below:

Net debt - shall mean the total consolidated balance sheet value of all interest-bearing liabilities (as well as payment guarantees) less the consolidated value of cash and cash equivalents.
Equity - shall mean the consolidated balance sheet value of the equity.
Check date – last day of each calendar quarter.

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

As at *In thousands of Polish Zlotys (PLN)*	**31 December 2017**
Net debt	150,268
Equity	342,012
Net Indebtedness Ratio	**43.9%**

Series I, J, K, L, M, N, O, P and Q:

Based on the conditions of bonds I, J, K, L, M, N, O, P and Q in each reporting period the Company shall test the ratio of Net debt to Equity (hereinafter "Net Indebtedness Ratio). The Ratio shall not exceed 80% on the Check Date.

The Net Indebtedness Ratio is a non-GAAP Financial Measure and is calculated according to formulas provided below:
Net debt – shall mean the total consolidated balance sheet value of all interest-bearing liabilities (as well as payment guarantees) less the consolidated value of cash and cash equivalents and less cash paid by Company's clients blocked temporarily on the escrow accounts servicing ongoing projects that are under construction (presented in the Company's consolidated balance sheet under Other current financial assets).
Equity – shall mean the consolidated balance sheet value of the equity.
Check date – last day of each calendar quarter.

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

As at *In thousands of Polish Zlotys (PLN)*	**31 December 2017**
Net debt	146,802
Equity	342,012
Net Indebtedness Ratio	**42.9%**

Notes to the Consolidated Financial Statements

29. Bond loans (cont'd)

Financial ratio covenants (cont'd):

Series R and S:

Based on the conditions of bonds R and S in each reporting period the Company shall test the ratio of Net debt to Equity (hereinafter "Net Indebtedness Ratio). The Ratio shall not exceed 80% on the Check Date.

The Net Indebtedness Ratio is Non-GAAP Financial Measure and is calculated according to formulas provided below:

Net debt - shall mean the total consolidated balance sheet value of all interest-bearing liabilities (as well as payment guarantees) less the consolidated value of cash and cash equivalents and less cash paid by Company's clients blocked temporarily on the escrow accounts servicing ongoing projects that are under construction (presented in the Company's consolidated balance sheet under Other current financial assets; the limit is PLN 40 million).

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

Check date – last day of each calendar quarter.

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

As at *In thousands of Polish Zlotys (PLN)*	**31 December 2017**
Net debt	146,802
Equity	337,889
Net Indebtedness Ratio	**43.4%**

In addition to the above, based on the conditions of bonds S, in each reporting period the Company shall test the Net debt to Inventory Ratio (hereinafter "Net Debt to Inventory Ratio). The Ratio shall not exceed 60% on the Check Date.

The Net Debt to Inventory Ratio is non-GAAP Financial Measure and is calculated according to formulas provided below:

Net debt - shall mean the total consolidated balance sheet value of all interest bearing liabilities (as well as payment guarantees) less the consolidated value of cash and cash paid by Company's clients blocked temporarily on the escrow accounts servicing ongoing projects that are under construction (presented in the Company's consolidated balance sheet under Other current financial assets; the limit is PLN 40 million).

Inventory - shall mean the consolidated balance sheet value of the inventory of the Company less advances received from the customers.

Check date – last day of each calendar quarter.

The table presenting the Net Debt to Inventory Ratio as at the end of the Reporting period:

As at *In thousands of Polish Zlotys (PLN)*	**31 December 2017**
Net debt	146,802
Inventory	409,854
Net Debt to Inventory Ratio	**35.8%**

Notes to the Consolidated Financial Statements

29. Bond loans (cont'd)

Other covenants:

Series R and S:

Based on the conditions of bonds R and S transactions with related-parties (shareholders holding more than 25% of the shares in the Company "within the meaning of IAS 24 or with related parties "including with entities controlling the Company whether jointly or individually, whether directly or indirectly or with their subsidiaries which are not members of the Group) shall not exceed the aggregate amount of PLN 1.0 million during any given calendar year.

During the year ended 31 December 2017, the consulting fees related to A. Luzon Group amounted to PLN 840 thousand.

30. Secured bank loans

The table below presents the movement in Secured bank loans:

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	**2017**	**2016**
Opening balance	**1,941**	**56,902**
New bank loan drawdown	76,077	45,134
Bank loans repayments	(64,071)	(100,024)
Bank charges paid	(792)	(1,331)
Bank charges amortization	783	928
Accrued interest/(interest repayment) on bank loans, net	(18)	13
Bank charges allocated to Nova Królikarnia (see Note 39)	-	319
Total closing balance	**13,920**	**1,941**
Closing balance includes:		
Current liabilities	4,765	-
Non-current liabilities	9,155	1,941
Total closing balance	**13,920**	**1,941**

For information related to unutilized bank loan facilities see Note 38.
For information related to new bank loans drawn see Note 43.

Covenants on secured bank loans:

As at 31 December 2017 and 2016, the Company has not breached any loan covenant, which would expose the Company for risk of obligatory and immediate repayment of any loan.

Notes to the Consolidated Financial Statements

30. Secured bank loans

For the bank loans the following collateral was given:

- Ordinary and floating mortgages on Inventory, see Note 20.
- Pledge over bank accounts which are presented in the Consolidated Statement of Financial Position as Cash and cash equivalents, 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.

31. Loans from third parties

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

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	**2017**	**2016**
Opening balance	**1,560**	**2,911**
Capital repayment	(1,557)	(1,181)
Interest repayment	(37)	(336)
Accrued interest	34	166
Total closing balance	**-**	**1,560**
Closing balance includes:		
Current liabilities	-	1,560
Non-current liabilities	-	-
Total Closing balance	**-**	**1,560**

For additional information, see Note 28.

32. Trade and other payables and accrued expenses

As at 31 December *In thousands of Polish Zlotys (PLN)*	**2017**	**2016**
Trade payables	18,792	17,241
Guarantees for construction work	1,844	3,081
Accrued expenses	14,054	18,027
Value added tax (VAT) and other tax payables	2,043	1,911
Non-trade payables	913	622
Total trade and other payables and accrued expenses	**37,646**	**40,882**

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

Notes to the Consolidated Financial Statements

33. Advances received

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

As at 31 December *In thousands of Polish Zlotys (PLN)*	**2017**	**2016**
Moko	3,599	7,446
Kamienica Jeżyce	27	34,719
Vitalia I	2,001	1,851
Vitalia II	107	-
Miasto Moje I	18,454	1,156
Miasto Moje II	203	-
Espresso I, II & III	13,211	40,989
Espresso IV	27,037	6,393
Miasto Marina	1,178	-
Verdis	231	283
Sakura	848	884
Tamka	-	567
Naturalis I, II &III	167	522
Młody Grunwald I, II & III	10,587	2,856
Panoramika II & III	15,928	1,652
City Link III	7,050	-
Impressio	255	678
Chilli IV	1,126	325
Other	235	286
Total	**102,244**	**100,607**

For information about contingent receivables from signed contracts with clients, see Note 38.

34. Provisions

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	**2017**	**2016**
Balance at the beginning of the year	**1,099**	**1,441**
Increase	498	-
Decrease	(465)	(342)
Balance at the end of the year	**1,132**	**1,099**

As at 31 December 2017, the provision included expected necessary costs of guarantees for construction works amounting to PLN 1,132 thousand, whereas as at 31 December 2016, the provision included expected necessary costs of guarantees for construction works amounting to PLN 1,099 thousand.

Notes to the Consolidated Financial Statements

35. Share-based payments

In February 2014 the Company implemented a long-term incentive plan (the 'Plan'), addressed to selected key employees, which is based on the price performance of the Company's shares (the "Phantom Stock Plan). On 24 March 2016, the Company executed annexes to the Phantom Stock Plan as approved by the Remuneration Committee of the Company's Supervisory Board. The Phantom Stock Plan including annexes, which does not assume any new issue of shares and which will not result in any new shares supply is based on the following key assumptions and includes the settlement mechanism as described below:

i. the exercise price of one option under the Phantom Stock Plan is PLN 1.60 which price shall be adjusted by dividends paid out by the Company during vesting and exercise periods. The adjustment mechanism applies only to options that are not exercised as of date of dividend payment (being the basis for adjustment) and applies until the last day of exercise period;

ii. the total number of options is 3,381,250 (which is the equivalent of approximately 1.2% of the Company's total number of shares), and the allocation of options to particular employees was made by way of a separate decision of the remuneration committee of the Remuneration Committee;

iii. benefits were aggregated among the selected employees (of the Company or of its subsidiaries) who joined the Phantom Stock Plan through the end of 2016, of which (a) 40% was awarded as of the date of the decision of the Remuneration Committee approving the Phantom Stock Plan, (b) 20% as of the end of 2014, (c) 25% as of the end of 2015 and (d) 20% as of the end of 2016;

iv. employees participating in the Phantom Stock Plan maintain the right to exercise their options until the end of June 2019, or within 18 months since departure of the employee, depending which occurs first;

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

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

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

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

Based on the approval of the Supervisory Board, 2,705,000 options were granted in February 2014 to key employees, including the Management Board members at the time, Mr Łapiński and Mr Gutowski, whereas in March 2016, 676,250 new options have been added to the plan, of which 237,500 were allocated to Mr Łapiński and 168,750 were allocated to Mr Gutowski, while 270,000 options were allocated to other key employees of the Company (those who joined the incentive plan in February 2014).

Out of the total 3,381,250 options granted, 1,187,500 options have been allocated to Tomasz Łapiński, and 843,750 options to Andrzej Gutowski while the remaining 1,350,000 options have been allocated to other key employees of the Company. Of the total 3,381,500 options 40%, i.e. 1,352,500 options, were granted and vested on 3 February 2014.

Notes to the Consolidated Financial Statements

35. Share-based payments (cont'd)

During March 2017, all 3,381,250 options were exercised for PLN 0.39 per option, for the total amount of PLN 1,319 thousand (from it PLN 463 thousand paid to Mr Łapiński and PLN 329 thousand to Mr Gutowski). As at 31 December 2016, the estimated fair value of these options amounted to PLN 978 thousand and was included in Company's Consolidated Statement of Financial Position under Share-based payment liabilities. The movement between the estimated liability per 31 December 2016 and the actual payment in March 2017, amounting to PLN 341 thousand (from it PLN 120 thousand allocated to Mr Łapiński and PLN 85 thousand to Mr Gutowski) thousand was recognized in employee benefits expense (see Note 10) during the year ended 31 December 2017.

During the year ended 31 December 2017, no new options were granted.

36. Fair value estimation of financial assets and liabilities

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

In thousands of Polish Zlotys (PLN)	***Category***	***Note***	**As at 31 December 2017**	
			Carrying amount	**Fair value**
Assets:				
Trade and other receivables	*Loans and receivables*	*22*	2,398	2,398
Other current financial assets	*Loans and receivables*	*23*	3,466	3,466
Cash and cash equivalents	*Loans and receivables*	*24*	64,860	64,860
Loans granted to joint ventures	*Loans and receivables*	*18*	6,922	6,928
Liabilities:				
Bond loans	*Other financial liabilities*	*28*	197,308	196,899
Secured bank loans	*Other financial liabilities*	*28*	13,920	13,902
Trade and other payables and accrued expenses	*Other financial liabilities*	*32*	35,342	35,342
Unrecognized profit/(loss)				**433**

In thousands of Polish Zlotys (PLN)	***Category***	***Note***	**As at 31 December 2016**	
			Carrying amount	**Fair value**
Assets:				
Trade and other receivables	*Loans and receivables*	*22*	2,095	2,095
Loans granted to third parties	*Loans and receivables*	*17*	508	523
Other current financial assets	*Loans and receivables*	*23*	4,480	4,480
Cash and cash equivalents	*Loans and receivables*	*24*	69,056	69,056
Loans granted to joint ventures	*Loans and receivables*	*18*	22,485	22,794
Liabilities:				
Bond loans	*Other financial liabilities*	*28*	222,591	223,478
Secured bank loans	*Other financial liabilities*	*28*	1,941	1,926
Loans from third parties	*Other financial liabilities*	*28*	1,560	1,587
Trade and other payables and accrued expenses	*Other financial liabilities*	*32*	38,971	38,971
Unrecognized profit/(loss)				**(575)**

Notes to the Consolidated Financial Statements

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

Estimation of fair values

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

- trade and other receivables, cash and cash equivalents, other current financial assets and trade and other payables and accrued expenses: the carrying amounts approximate fair value because of the short maturity of these instruments;
- loans and borrowings and loans granted to joint ventures: the fair value is estimated by discounting the future cash flows of each instrument using discount rates offered to the Group for similar instruments of comparable maturities by the Group's bankers. The own non-performance risk as at 31 December 2017 was assessed as insignificant.

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows (PLN denominated), where applicable, are based on WIBOR plus/minus margin as at 31 December 2017 and 31 December 2016 and are as follows:

As at 31 December	2017	2016
Loans and borrowings/loans granted to joint venture	4.6-5.2%	4.5-5.3%
Short-term bank deposits – collateralized	n.a.	1.3%

37. Fair value measurement hierarchy

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

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

Quantitative disclosures fair value hierarchy for assets as at 31 December 2017:

		Fair value measurement using:		
In thousands of Polish Zlotys (PLN)	***Date of valuation***	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Assets measured at fair value:				
Investment property	31-Dec-17	-	-	8,743
Liabilities for which fair values are disclosed:				
Loans granted to joint ventures	31-Dec-17	-	6,928	-
Bond loans	31-Dec-17	-	196,899	-
Secured bank loans	31-Dec-17	-	13,902	-

During 2017, there have been no transfers between Level 1 and Level 2.

For information related additional information about the significant unobservable inputs (Level 3) see Note 16.

Notes to the Consolidated Financial Statements

38. Commitments and contingencies

Investment commitments:

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

As at 31 December *In thousands of Polish Zlotys (PLN)*	**2017**	**2016**
City Link III	71,751	-
Panoramika IV	21,894	-
Miasto Moje II	24,356	-
Marina Miasto	21,185	-
Vitalia II	18,516	-
Miasto Moje I	7,753	33,114
Espresso IV	4,277	23,301
Młody Grunwald III	-	15,450
Panoramika III	-	12,171
Chilli IV	-	6,490
Vitalia I	-	10,319
Total	**169,732**	**100,845**

Unutilized construction loans:

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

As at 31 December *In thousands of Polish Zlotys (PLN)*	**2017**	**2016**
Miasto Marina	34,915	-
Miasto Moje I	14,861	36,252
Espresso IV	-	31,391
Młody Grunwald III	4,955	23,130
Vitalia I	-	27,949
City Link III	101,163	-
Total	**155,894**	**118,722**

Notes to the Consolidated Financial Statements

38. Commitments and contingencies (cont'd)

Contingent receivables - contracted sales not yet recognized:

The table below presents amounts to be received from the customers having bought apartments from the Group and which are based on the value of the sale and purchase agreements signed with the clients until 31 December 2017 after deduction of payments received at reporting date (such payments being presented in the Consolidated Statement of Financial Position as Advances received):

As at 31 December	**2017**	**2016**
In thousands of Polish Zlotys (PLN)		
City Link III	30,007	-
Miasto Moje I	26,751	10,672
Miasto Moje II	3,414	-
Moko	4,763	6,161
Kamienica Jeżyce	15	8,112
Espresso I, II & III	1,059	8,372
Espresso IV	19,032	18,475
Sakura	394	790
Verdis	1,272	2,035
Impressio	1,427	2,276
Młody Grunwald I & II	1,467	22
Młody Grunwald III	3,897	8,520
Panoramika II	308	733
Panoramika III	4,822	2,234
Panoramika IV	531	-
Naturalis I, II & III	365	1,404
Vitalia I	3,543	7,156
Vitalia II	1,733	-
Chilli IV	1,518	1,173
Miasto Marina	3,128	-
Tamka	-	2,662
Other (old) projects	24	811
Total	**109,470**	**81,608**

Notes to the Consolidated Financial Statements

39. Related parties

Parent company

The Company enters into various transactions with its subsidiaries and with its directors and executive officers.

As at 31 December 2017, 66.06% of the outstanding shares are controlled by A. Luzon Group. The remaining 39.94% of the outstanding shares are held by Nationale Nederlanden Otwarty Fundusz Emerytalny holding between 14.6% and by other investors including Metlife Otwarty Fundusz Emerytalny and Aviva OFE Aviva BZ WBK.

For a list of subsidiaries reference is made to Note 1(b).

The main related parties' transactions arise on:

- agreement with the major shareholder for remuneration of Board member;
- transactions with key management personnel;
- loans granted to related parties;
- sale of a development project to and acquisition of own shares from a former shareholder;
- other.

Outstanding balances with related parties as at 31 December 2017 and as at 31 December 2016 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.

Agreement with the major shareholder for remuneration of Board member

During the year ended 31 December 2017, the Company entered into an agreement with its major (indirect) shareholder, A. Luzon Group, covering costs of remuneration of two members of the Board of Managing Directors and of Chairman of the Board of Supervisory Directors. For total monthly amount of PLN 70 thousand and covering travel and out of pocket expenses.

Notes to the Consolidated Financial Statements

39. Related parties (cont'd)

Transactions with key management personnel

During the year ended 31 December 2017, key management personnel of the Company included the following members of the Management Board:

Nir Netzer *(from 20 November 2017)* - President, Chief Executive Officer
Rami Geris *(from 30 June 2017)* - Member, Chief Financial Officer
Andrzej Gutowski - Member, Sales & Marketing Director
Shraga Weisman *(until 27 April 2017)* - President, Chief Executive Officer
Tomasz Łapiński *(until 20 November 2017)* - Member/President, Chief Financial/Chief Executive Officer
Erez Yoskovitz *(until 1 March 2017)* - Member of the Management Board
Roy Vishnovizki *(until 18 January 2017)* - Member of the Management Board
Erez Tik *(from 1 March 2017)* - Member of the Management Board
Alon Haver *(from 1 March 2017)* - Member of the Management Board

Key Management Board personnel compensation

Apart from the compensation listed below, there were no further benefits granted/paid to key management personnel. Key management personnel compensation can be presented as follows:

As at 31 December *In thousands of Polish Zlotys (PLN)*	**2017**	**2016**
Salary and other short time benefit	117	-
Management bonus	-	-
Subtotal - Mr Nir Netzer	**117**	**-**
Salary and other short time benefit	210	-
Management bonus	128	-
Subtotal - Mr Rami Geris	**338**	**-**
Salary and other short time benefit	335	334
Incentive plan linked to financial results	351	365
Incentive plan linked to share price performance *	85	87
Subtotal - Mr Andrzej Gutowski	**771**	**786**
Salary and other short time benefit	634	2,032
Management bonus	(612)	2,550
Subtotal - Mr Shraga Weisman	**22**	**4,582**
Salary and other short time benefit	530	548
Incentive plan linked to financial results	45	657
Incentive plan linked to share price performance *	120	122
Subtotal - Mr Tomasz Łapiński	**695**	**1,327**
Total	**1,943**	**6,695**

* *For additional information see note 35.*

Notes to the Consolidated Financial Statements

39. Related parties (cont'd)

Key Management Board personnel compensation (cont'd)

Messrs Erez Yoskovitz and Roy Vishnovizki were not entitled to any remuneration from the Company, nor from any of the Company's subsidiaries.

Messrs Erez Tik and Alon Haver did not receive any direct remuneration from the Company nor from any of the Company's subsidiaries. Instead, their remuneration is covered by and included in the agreement with A. Luzon Group covering costs of remuneration of two members of the Board of Managing Directors and of the Chairman of the Board of Supervisory Directors for a total monthly amount of PLN 70 thousand.

Share based payments to members of the Management Board

During the year ended 31 December 2017, management Board members Mr Tomasz Łapiński and Mr Andrzej Gutowski have exercised all options previously granted to them: 1,187,500 and 843,750 options, for a total amount of PLN 463 thousand and PLN 329 thousand, respectively.
For a detailed description of the Company's long-term incentive plan and the exercise of options during the financial year, reference is made to Note 35.

Loans to directors

As at 31 December 2017 and 31 December 2016, there were no loans granted to directors.

Other transactions with directors

During the year ended 31 December 2017, the Group sold one residential unit including one storage to Mr Andrzej Gutowski for a total net amount (excluding VAT) of PLN 854 thousand. This transaction was executed at arm's length and was in adherence to the Group's policy in respect of related-party transactions.
During the year ended 31 December 2016, there were no other transaction with directors.

Supervisory Board remuneration

The supervisory directors are entitled to an annual fee of EUR 8,900 plus an amount of EUR 1,500 per board meeting (EUR 750 if attendance is by telephone). The total amount due in respect of Supervisory Board fees during 2017 and 2016 amounted to PLN 336 thousand (EUR 79 thousand) and PLN 339 thousand (EUR 77 thousand), respectively (for additional information see Note 5 of the Company Financial Statements).

Mr Amos Luzon did not receive any direct remuneration from the Company nor from any of the Company's subsidiaries. Instead, his remuneration is covered by and included in the agreement with A. Luzon Group covering costs of remuneration of two members of the Board of Managing Directors and of the Chairman of the Board of Supervisory Directors for a total monthly amount of PLN 70 thousand.

Loans granted to related parties

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

Sale of a development project to and acquisition of own shares from a former shareholder

On 23 December 2016, the Company sold to one of its principal shareholders, I.T.R 2012 B.V. ("ITR 2012) certain shares in project companies and properties together constituting the Nova Królikarnia project for a price of PLN 175,119 thousand, of which an amount of PLN 34,265 thousand is settled by way of payment in cash by ITR 2012 to the Company. For the remaining value of the sale of the Nova Królikarnia project, i.e. PLN 140,854 thousand, the Company agreed to acquire from ITR 2012 (in order to subsequently redeem) 108,349,187 of its shares held directly and indirectly by ITR 2012. The total value of PLN 140,854 thousand for the own shares acquired equals PLN 1.30 per share.

Notes to the Consolidated Financial Statements

39. Related parties (cont'd)

Sale of a development project to and acquisition of own shares from a former shareholder (cont'd)

Of the agreed-upon payment in cash for the benefit of the Company (PLN 34,265 thousand), an amount of PLN 24,365 thousand was paid to the Company on 23 December 2016 while the remainder (PLN 9,900 thousand) was paid by ITR 2012 to the Company in March 2017.

Other

As a result of requirements pertaining to A. Luzon Group, one of the Company's larger (indirect) shareholders, whose shares are listed on the Tel Aviv stock exchange, the first quarter reports, semi-annual reports and third quarter reports are subject to a full scope review by the Company's auditors. For the Company itself, being domiciled in the Netherlands and listed on the Warsaw Stock Exchange, only the semi-annual report is subject to a review by the auditor. The Company has agreed with A. Luzon Group that the costs for the first and third quarter auditors' reviews will be shared between the Company and its shareholder. The reimbursement of audit review costs is disclosed in Note 16 to the Company Financial Statements.

40. Financial risk management, objectives and policies

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Management Board reviews and agrees policies for managing each of these risks and they are summarized below. The Group also monitors the market price risk arising from all financial instruments.
The Group does not use derivative financial instruments to hedge currency or interest rate risks arising from the Group's operations and its sources of finance. It is, and has been throughout the year ended 31 December 2017 and 2016, the Group's policy that no trading in (derivative) financial instruments shall be undertaken.
The Group's principal financial instruments comprise cash balances, bank loans, bonds, trade receivables and trade payables. The main purpose of these financial instruments is to manage the Group's liquidity and to raise finance for the Group's operations.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counter party to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially expose the Group to concentrations of credit risk consist principally of cash and cash equivalents and receivables.
The Group is making significant cash payments as security for preliminary land purchase agreements. The Group minimizes its credit risk arising from such payments by registering advance repayment obligations in the mortgage register of the respective property. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The Group does not expect any counter parties to fail in meeting their obligations. The carrying amounts of the financial assets represent the maximum credit risk exposure. The maximum exposure to credit risk at the reporting date was as follows:

In thousands of Polish Zloty (PLN)	**As at 31 December 2017**	**As at 31 December 2016**
Trade and other receivables	3,277	3,239
Advances for land	80,060	36,900
Cash and cash equivalents	64,860	69,056
Total	**148,197**	**109,195**

Notes to the Consolidated Financial Statements

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

Credit risk (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:

In thousands of Polish Zloty (PLN)	**As at 31 December 2017**	**As at 31 December 2016**
Rating		
AAA	6	19
A	42,983	50,933
BBB	8,667	14,974
BB	13,204	3,130
Total cash and cash equivalents	**64,860**	**69,056**

Market risk

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

(i) Foreign currency risk

The Group is exposed to foreign currency risk on receivables and payables denominated in a currency other than PLN to a limited extent only. As at 31 December 2017 and 2016, trade receivables and payables denominated in foreign currencies were insignificant.

(ii) Price risk

The Group's exposure to marketable and non-marketable securities price risk does not exists because the Group has not invested in securities as at 31 December 2017 and 2016.

(iii) Interest rate risk

Except of bonds series P that amounted to PLN 10.0 million, the Group didn't enter into any fixed-rate borrowings transaction. The Group's variable-rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Short-term receivables and payables are not exposed to interest rate risk.

Liquidity risk

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

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

Notes to the Consolidated Financial Statements

40. 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 2017				
In thousands of Polish Zlotys (PLN)	**Note**	**Average effective interest rate**	**Total**	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**	**More than 5 years**
Fixed rate instruments								
Cash and cash equivalents	*24*	0.05%-0.1%	**24,107**	24,107	-	-	-	-
Bond loans	*28*	5.25%	**(9,936)**	(62)	-	-	(9,874)	-
Variable rate instruments								
Cash and cash equivalents	*24*	0.76%-1.50%	**40,753**	40,753	-	-	-	-
Secured bank loans	*28*	Wibor + 2.8%	**(13,920)**	(4,765)	-	(9,155)	-	-
Floating rate bonds	*28*	Wibor + 2.85%-4.25%	**(187,372)**	(28,782)	(14,947)	(49,669)	(93,974)	-

				As at 31 December 2016				
In thousands of Polish Zlotys (PLN)	**Note**	**Average effective interest rate**	**Total**	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**	**More than 5 years**
Fixed rate instruments								
Cash and cash equivalents	*24*	0.05%-0.1%	**8,812**	8,812	-	-	-	-
Bond loans	*28*	5.25%	**(9,889)**	(62)	-	-	(9,827)	-
Variable rate instruments								
Loans granted to third parties	*17*	11.5%(1)	**508**	-	508	-	-	-
Cash and cash equivalents	*24*	0.75%-1.95%	**60,244**	60,244	-	-	-	-
Secured bank loans	*28*	Wibor + 2.5%-2.9%	**(1,941)**	-	-	(1,941)	-	-
Loans from others	*28*	6.5%(2)	**(1,560)**	-	(1,560)	-	-	-
Floating rate bonds	*28*	Wibor + 3.75%-4.55%	**(212,702)**	(84,991)	-	(53,722)	(73,989)	-

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

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

Notes to the Consolidated Financial Statements

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

	As at 31 December 2017		**As at 31 December 2016**	
In thousands of Polish Zlotys (PLN)	**Increase by 1%**	**Decrease by 1%**	**Increase by 1%**	**Decrease by 1%**
Statement of comprehensive income				
Variable interest rate assets	136	(136)	203	(203)
Variable interest rate liabilities *	(671)	671	(646)	646
Total	**(535)**	**535**	**(443)**	**443**
Net assets				
Variable interest rate assets	136	(136)	203	(203)
Variable interest rate liabilities *	(671)	671	(646)	646
Total	**(535)**	**535**	**(443)**	**443**

* 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.

	As at 31 December 2017			
In thousands of Polish Zlotys (PLN)	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Bond loans	53,343	56,347	110,777	-
Secured bank loans	5,135	10,069	-	-
Trade and other payables	35,603	-	-	-
Total	**94,081**	**66,416**	**110,777**	**-**

	As at 31 December 2016			
In thousands of Polish Zlotys (PLN)	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Bond loans	95,009	60,064	88,670	-
Secured bank loans	131	2,793	-	-
Loans from third parties	1,610	-	-	-
Trade and other payables	38,971	-	-	-
Total	**135,721**	**62,857**	**88,670**	**-**

Notes to the Consolidated Financial Statements

40. 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

41. Capital management

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

Banking covenants vary according to each loan agreement, but typically are not related directly to the gearing ratio of the Company but to the proportion of loan to value of the mortgage collateral which usually is required not to cross the limit of 70% or 80%. Moreover the Company is obliged to monitor its indebtedness according to the conditions of the bond issuance, which require, amongst others, that in each reporting period the Company shall test the ratio between Net debt to Equity. The Ratio shall not exceed 80% (for additional information see Note 29).

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 2017 and 31 December 2016 were as follows:

As at 31 December	**2017**	**2016**
In thousands of Polish Zlotys (PLN)		
Loan and borrowings, including current portion	211,228	226,092
Less: cash and cash equivalents	(64,860)	(69,056)
Net debt	**146,368**	**157,036**
Total equity	342,012	361,876
Total capital employed	**488,380**	**518,912**
Gearing ratio	**42.8%**	**43.4%**
Leverage	**30.0%**	**30.3%**

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

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

Notes to the Consolidated Financial Statements

42. Cash flow reconciliation

Inventory

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	**2017**	**2016**
Balance sheet change in inventory	62,000	127,189
Finance expense, net capitalized into inventory	7,187	7,031
Transferred to trade and other receivables and prepayments	(202)	-
Transferred from advance for land	-	3,698
Sale of project to (former) shareholder	-	319
Write-down of inventory	(3,314)	(2,269)
Change in inventory in the consolidated statement of cash flows	**65,671**	**135,968**

Trade and other receivables and prepayments

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	**2017**	**2016**
Balance sheet change in trade and other receivables and prepayments	(1,559)	8,348
Transferred from inventory	202	-
Transferred to inventory	-	(3,698)
Change in Trade and other receivables and prepayments in the consolidated statement of cash flows	**(1,357)**	**4,650**

43. Events during the financial year

Bond loans

On 24 May 2017, the Company issued 50,000 series R bonds with a total nominal value of PLN 50,000 thousand. The nominal value of one bond amounts to PLN 1,000 and is equal to its issue price. The series R bonds shall be redeemed on 24 May 2021. The Bonds bear interest at a variable rate based on the WIBOR rate for six-month deposits increased by a margin of 2.85%. Interest is payable semi-annually in May and November until redemption date.

On 14 June 2017, at the date of their maturity, the Company repaid all outstanding bonds series C (83,500 bonds with total nominal value of PLN 83,500 thousand). Following this repayment, the total number of outstanding bonds series C amounted to nil.

On 19 June 2017, the Company issued 20,000 series S bonds with a total nominal value of PLN 20,000 thousand. The nominal value of one bond amounts to PLN 1,000 and is equal to its issue price. The series S bonds shall be redeemed on 19 June 2021. The bonds bear interest at a variable rate based on the WIBOR rate for six-month deposits increased by a margin of 3.40%. Interest is payable semi-annually in June and December until redemption date.

On 19 June 2017, the Company repaid all outstanding 120,000 series G bonds with total nominal value of PLN 12,000 thousand. After this repayment, the total number of outstanding bonds series G amounted to nil.

Notes to the Consolidated Financial Statements

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

Bank loans

During year ended 31 December 2017, the Company redeemed bank loans for a total amount of PLN 64.1 million.

In January 2017, the Company executed a loan agreement with mBank Hipoteczny S.A. related to the third stage of the Panoramika project in Szczecin. Under this loan agreement mBank Hipoteczny S.A. is to provide financing to cover the costs of construction up to a total amount of PLN 19.4 million. As at the 31 December 2017 the Company utilized and repaid entire loan.

In September 2017, the Company executed a loan agreement with Alior Bank S.A. related to the third stage of the City Link project in Warsaw (referred in the agreement with Alior Bank S.A. as the stage number four). Under this loan agreement Alior Bank S.A. is to provide financing to cover the costs of construction and development up to a total amount of PLN 101.2 million. Under the loan agreement, the final repayment date of the loan facility is 30 September 2020.

In December 2017, the Company executed a loan agreement with Alior Bank S.A. related to the Miasto Marina project in Wrocław. Under this loan agreement Alior Bank S.A. is to provide financing to cover the costs of construction and development up to a total amount of PLN 34.9 million. Under the loan agreement, the final repayment date of the loan facility is 30 November 2020.

Commencements of new projects

In June 2017, the Company commenced the construction work of the City Link III project, which comprise 368 units with an aggregate floor space of 18,700 m^2.

In July 2017, the Company commenced the construction work of the Miasto Marina project, which comprise 151 units with an aggregate floor space of 6,200 m^2.

In August 2017, the Company commenced the construction work of the second stage of the Miasto Moje project, which comprise 148 units with an aggregate floor space of 8,100 m^2.

In November 2017, the Company commenced the construction work of the second stage of the Vitalia project comprising 83 units with an aggregate floor space of 4,700 m^2.

In November 2017, the Company commenced the construction work of fourth stage of the Panoramika project comprising 111 units with an aggregate floor space of 5,800 m^2.

Completions of projects

In September 2017, the Company completed the construction of the Vitalia I project comprising 139 units with a total area of 7,200 m^2.

In September 2017, the Company completed the construction of the City Link I project comprising 322 units with a total area of 14,700 m^2.

In October 2017, the Company completed the construction of the Młody Grunwald III project comprising 108 units with a total area of 7,100 m^2.

In December 2017, the Company completed the construction of the Panoramika III project comprising 122 units with a total area of 5,800 m^2.

In December 2017, the Company completed the construction of the Chilli IV project comprising 45 units with a total area of 2,900 m^2.

Notes to the Consolidated Financial Statements

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

Land purchase

In January 2017 and in February 2018, the Company entered into conditional sale agreements concerning the acquisition of real properties located in Warsaw, Ursus district, and into certain cooperation agreements (hereinafter "Properties"). The Properties are covered by a local zoning plan which allows for the development of multi-family housing projects of approximately 1,600 apartments. The total sales price for the acquisition of the Properties plus the value of the work which must be performed to allow the Company to carry out the housing projects (such work being the responsibility of the sellers) has been agreed at the amount of PLN 81.75 million plus applicable VAT (from the agreed price an amount of PLN 79.0 million plus applicable VAT has been paid until 31 December 2017).

The final agreements regarding the transfer of part of the Properties to the Company expected to be concluded during March 2018, the remaining part expected to be transferred by December 2019. That will allow the Company to commence the first stage of the project during 2018.

Sale of land

On 19 July 2017, the Company sold to a third party (the right of perpetual usufruct) of real properties located in Warsaw, Ursus district. The sale price of the properties was set at PLN 1.6 million plus the applicable VAT. The Company realized a profit on the sale of the Property of PLN 0.4 million.

Dividends

On 1 March 2017, during an extra-ordinary General Meeting of Shareholders, the shareholders of the Company accepted a distribution of an interim dividend for the financial year 2016 as proposed by the Board of Managing Directors and the Board of Supervisory Directors. Interim dividend in a total amount of PLN 14,760,974 or PLN 0.09 per ordinary share, was paid on 23 March 2017.

In addition, on 30 June 2017, during the Annual General Meeting of Shareholders, the shareholders of the Company accepted a distribution of a final dividend for the financial year 2016 as proposed by the Board of Managing Directors and the Board of Supervisory Directors. The final dividend in the amount of PLN 16,401,081 or PLN 0.10 per ordinary share, was paid on 10 August 2017.

44. Subsequent events

Bank loans

Since the 31 December 2017, the Group has not signed, nor amended any loan agreement.

Bond loans

Since 31 December 2017, the Company has not issued any bonds loans.

Commencements of new projects

Since 31 December 2017, the Group has not commenced construction of any new project.

Completions of projects

In February 2018, the Company completed the construction of the fourth (and last) stage of Espresso project comprising 146 units with a total area of 8,100 m^2.

Notes to the Consolidated Financial Statements

44. Subsequent events (cont'd)

Transformation of the Company and transfer of registered office to Poland

On 5 February 2018, the Company announced its plan for a transformation of the Company into a European Company (SE) and a subsequent transfer of its registered office to Poland. The completion of the transformation of the Company is subject to the approval by the Company's shareholders during a general meeting. For this purpose, the management board has convened an extraordinary general meeting of the shareholders to be held on 5 April 2018.

Company Statement of Profit or Loss

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	***Note***	**2017**	**2016**
Revenues from consulting services		4,207	8,394
General and administrative expenses	*4*	(3,725)	(8,352)
Other expenses		(335)	(638)
Operating profit		**147**	**(596)**
Finance income	*6*	4,979	12,429
Finance expense	*6*	(12,800)	(13,299)
Net finance income/(expense)		**(7,821)**	**(870)**
Profit/(loss) before taxation		**(7,674)**	**(1,466)**
Income tax	*7*	-	-
Profit/(loss) before result from subsidiaries		**(7,674)**	**(1,466)**
Result from subsidiaries after taxation	*9*	17,138	65,997
Profit/(loss) for the year		**9,464**	**64,531**

The notes on pages 118 to 125 are an integral part of these Company financial statements.

Company Statement of Financial Position

After profit appropriation

As at 31 December *In thousands of Polish Zlotys (PLN)*	*Note*	**2017**	**2016**
Assets			
Investment in subsidiaries	*9*	454,422	499,958
Loan granted to subsidiaries	*10*	66,970	55,586
Total non-current assets		**521,392**	**555,544**
Trade and other receivables and prepayments		673	771
Receivable from subsidiaries		845	5,429
Loan granted to subsidiaries	*10*	16,587	21,308
Cash and cash equivalents		252	8,368
Total current assets		**18,357**	**35,876**
Total assets		**539,749**	**591,420**
Equity			
Shareholders' equity	*11*		
Share capital		12,503	20,762
Share premium reserve		150,278	282,873
Treasury shares		-	(140,854)
Revaluation reserve		3,796	3,556
Retained earnings		171,312	193,249
Total shareholders' equity		**337,889**	**359,586**
Liabilities			
Long-term liabilities			
Bond loans	*12*	153,517	137,538
Total long-term liabilities		**153,517**	**137,538**
Current liabilities			
Bond loans	*12*	43,791	85,053
Payable to subsidiaries		-	-
Loans from subsidiaries		3,400	5,001
Share based payment liabilities		-	978
Trade and other payables and accrued expenses		1,152	3,264
Total current liabilities		**48,343**	**94,296**
Total liabilities		**201,860**	**231,834**
Total shareholders' equity and liabilities		**539,749**	**591,420**

The notes on pages 118 to 125 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 registered at the Trade Register of the Netherlands Chamber of Commerce with number 24416758, and was incorporated on 18 June 2007. On 5 February 2018, the Company announced its plan for a transformation of the Company into a European Company (SE) and a subsequent transfer of its registered office to Poland. The completion of the transformation of the Company is subject to the approval by the Company's shareholders during a general meeting. For this purpose, the management board has convened an extraordinary general meeting of the shareholders to be held on 5 April 2018.

The shares of the Company are traded on the Warsaw Stock Exchange since 5 November 2007. As at 31 December 2017, 66.06% of the outstanding shares are controlled by Amos Luzon Development and Energy Group Ltd. ('A. Luzon Group'). The remaining 33.94% of the outstanding shares are held by the public.

The Company holds and owns (directly and indirectly) 84 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. For additional information see Note 1.b to the Consolidated Financial Statements.

2. Accounting principles

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

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

3. Sale of a development project to a major shareholder and acquisition of own shares in 2016

On 23 December 2016, the Company concluded an agreement with one of its principal shareholders, I.T.R 2012 B.V. ("ITR 2012), under which the Company sold to ITR 2012 certain shares in project companies and properties together constituting the Nova Królikarnia project for a price of approximately PLN 175.1 million, of which an amount of PLN 34.3 million was to be settled in cash (PLN 24.4 million was paid to the Company immediately and remaining PLN 9.9 million was paid on 1 March 2017). For the remaining value of the sale of the Nova Królikarnia project, i.e. PLN 140.8 million, the Company acquired from ITR 2012 (in order to subsequently redeem) 108,349,187 of its shares held directly and indirectly by ITR 2012, which at that date constituted 39.78% of the Company's share capital.

4. General and administrative expense

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	**2017**	**2016**
External services	1,986	1,566
Remuneration fees	1,604	6,649
Other	135	137
Total	**3,725**	**8,352**

Notes to the Company Financial Statements

5. Directors' remuneration

Management Board personnel compensation

Apart from the compensation listed below, there were no further benefits, in the years ended 31 December 2017 and 31 December 2016. Management Board personnel compensation, payable by the Group, can be presented as follows:

As at 31 December *In thousands of Polish Zlotys (PLN)*	**2017**	**2016**
Salary and other short time benefit	117	-
Management bonus	-	-
Subtotal - Mr Nir Netzer	**117**	**-**
Salary and other short time benefit	210	-
Management bonus	128	-
Subtotal - Mr Rami Geris	**338**	**-**
Salary and other short time benefit	335	334
Incentive plan linked to financial results	351	365
Incentive plan linked to share price performance *	85	87
Subtotal - Mr Andrzej Gutowski	**771**	**786**
Salary and other short time benefit	634	2,032
Management bonus	(612)	2,550
Subtotal - Mr Shraga Weisman	**22**	**4,582**
Salary and other short time benefit	530	548
Incentive plan linked to financial results	45	657
Incentive plan linked to share price performance *	120	122
Subtotal - Mr Tomasz Łapiński	**695**	**1,327**
Total	**1,943**	**6,695**

* *For additional information see Note 35 and 39 to the Consolidated Financial Statements*.

Messrs Erez Yoskovitz and Roy Vishnovizki were not entitled to any remuneration from the Company, nor from any of the Company's subsidiaries.

Messrs Erez Tik and Alon Haver did not receive any direct remuneration from the Company nor from any of the Company's subsidiaries. Instead, their remuneration is covered by and included in the agreement with A. Luzon Group covering costs of remuneration of two members of the Board of Managing Directors and of the Chairman of the Board of Supervisory Directors for a total monthly amount of PLN 70 thousand.

Notes to the Company Financial Statements

5. Directors' remuneration (cont'd)

Supervisory Board remuneration

The supervisory directors are entitled to an annual fee of EUR 8,900 plus an amount of EUR 1,500 per board meeting (EUR 750 if attendance is by telephone). The total amount due in respect of Supervisory Board fees during 2017 and 2016 amounted to PLN 336 thousand (EUR 79 thousand) and PLN 339 thousand (EUR 77 thousand), respectively.

Mr Amos Luzon did not receive any direct remuneration from the Company nor from any of the Company's subsidiaries. Instead, his remuneration is covered by and included in the agreement with A. Luzon Group covering costs of remuneration of two members of the Board of Managing Directors and of the Chairman of the Board of Supervisory Directors for a total monthly amount of PLN 70 thousand.

Supervisory Board remuneration can be presented as follows:

As at 31 December *In thousands of Polish Zlotys (PLN)*	**2017**	**2016**
Mr Ofer Kadouri *(appointed 1 March 2017)*	68	-
Mr Alon Kadouri *(appointed 1 March 2017)*	55	-
Mr Piotr Palenik *(appointed 30 June 2017)*	30	-
Ms Mikhal Shapira *(appointed 1 March 2017- resigned 13 September 2017)*	47	-
Mr Shmuel Rofe *(appointed 20 November 2017)*	4	-
Mr Mark Segall (*resigned 1 March 2017)*	17	86
Mr Yair Shilhav (*resigned 1 March 2017)*	17	92
Mr Reuven Sharoni (*resigned 1 March 2017)*	17	92
Mr Przemyslaw Kowalczyk *(re-appointed 24 June 2015)*	81	69
Total	**336**	**339**

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

For additional information about transactions with Management Board and Supervisory Board see Note 39 to the Consolidated Financial Statements.

6. Net finance income and expense

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	**2017**	**2016**
Interests and fees on granted loans to subsidiaries	4,911	11,977
Interest income on bank deposits	68	452
Finance income	**4,979**	**12,429**
Interest expense on bonds measured at amortized cost	(11,282)	(11,860)
Foreign exchange loss	(139)	-
Commissions and fees	(1,320)	(1,354)
Other	(59)	(85)
Finance expense	**(12,800)**	**(13,299)**
Net finance income/(expense)	**(7,821)**	**(870)**

Notes to the Company Financial Statements

7. Income tax

No Dutch income taxes have been recorded.

Realizations of 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 Dutch tax losses (that on them the Company did not recognizing deferred tax assets) available for carry forward as at 31 December 2017 are estimated to be PLN 11,804 thousand (as at 31 December 2016: PLN 6,667 thousand).
As the Company realized taxable losses in the Netherlands up to and including the year ended 31 December 2017 and is no recognizing deferred tax assets on these tax losses, the effective tax rate for the Company is 0% whereas the applicable tax rate in the Netherlands is 20% for taxable gains up to EUR 200 thousand and 25% for tax gains above EUR 200 thousand for the financial years through 2018.

During 2016 the Company applied to the Dutch tax authorities and changed its functional currency from EUR to PLN starting from 1 January 2017.

8. Personnel

The Company did not employ any personnel during the financial years ended 31 December 2017 and 31 December 2016.

9. 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 *In thousands of Polish Zlotys (PLN)*	**2017**	**2016**
Balance at beginning of the year	499,958	460,890
Net result subsidiaries during the year	17,138	65,997
Dividends from subsidiaries	(62,674)	(26,929)
Balance at end of the year	**454,422**	**499,958**

The Company holds and owns (directly and indirectly) 84 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. For additional information see Note 1.b to the Consolidated Financial Statements.

Notes to the Company Financial Statements

10. Loan granted to subsidiaries

Movements in loans granted to subsidiaries

For the year ended 31 December *In thousands of Polish Zlotys (PLN)*	2017	2016
Opening balance	**76,894**	**153,370**
Loans granted	6,000	55,000
Loans transferred in sale to shareholder (see Note 3)	-	(132,476)
Charges and fees	(120)	(1,100)
Proceeds from interest	(4,121)	(9,877)
Amortization of charges and fees	404	1,726
Accrued interest	4,500	10,251
Total closing balance	**83,557**	**76,894**
Current liabilities	16,587	21,308
Non-current liabilities	66,970	55,586
Total closing balance	**83,557**	**76,894**

Loans as at 31 December 2017:

In thousands of Polish Zlotys (PLN)	Currency	Nominal interest rate	Year of maturity	Capital	Accrued interest	Charges and fees	Carrying value
Ronson Development Finco	PLN	Wibor 6M + 5.05%	2018	1,700	-	-	1,700
Ronson Development Finco	PLN	Wibor 6M + 4.0%	2018	15,000	-	(113)	14,887
Ronson Development Finco	PLN	Wibor 6M + 4.0%	2019	10,000	-	(112)	9,888
Ronson Development Finco	PLN	Wibor 6M + 4.1%	2019	4,500	-	(33)	4,467
Ronson Development Finco	PLN	Wibor 6M + 4.1%	2019	10,000	-	(102)	9,898
Ronson Development Finco	PLN	Wibor 6M + 4.1%	2019	5,009	-	-	5,009
Ronson Development Finco	PLN	Wibor 6M + 4.15%	2020	10,000	-	(113)	9,887
Ronson Development Finco	PLN	5.75%	2020	10,000	-	(145)	9,855
Ronson Development Finco	PLN	6%	2020	10	295	-	305
Ronson Development Skyline	PLN	6%	2020	7,350	4,416	-	11,766
Ronson Development Finco	PLN	Wibor 6M + 3.90%	2021	6,000	-	(105)	5,895
Total loans granted to Subsidiaries				**79,569**	**4,711**	**(723)**	**83,557**

Loans as at 31 December 2016:

In thousands of Polish Zlotys (PLN)	Currency	Nominal interest rate	Year of maturity	Capital	Accrued interest	Charges and fees	Carrying value
Ronson Development Finco	PLN	Wibor 6M + 5.05%	2017	1,700	3	-	1,703
Ronson Development Finco	PLN	Wibor 6M + 4.25%	2017	20,000	3	(398)	19,605
Ronson Development Finco	PLN	Wibor 6M + 4.1%	2019	5,009	6	-	5,015
Ronson Development Finco	PLN	Wibor 6M + 4.1%	2019	4,500	6	(56)	4,450
Ronson Development Finco	PLN	Wibor 6M + 4.0%	2019	15,000	19	(226)	14,793
Ronson Development Finco	PLN	Wibor 6M + 4.1%	2019	10,000	13	(162)	9,851
Ronson Development Finco	PLN	Wibor 6M + 4.15%	2020	10,000	13	(166)	9,847
Ronson Development Finco	PLN	6%	2020	10	295	-	305
Ronson Development Skyline	PLN	6%	2020	7,350	3,975	-	11,325
Total loans granted to Subsidiaries				**73,569**	**4,333**	**(1,008)**	**76,894**

The loans are not secured.

Notes to the Company Financial Statements

11. 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 2017 amounted to 164,010,813 (as at 31 December 2016: 272,360,000 shares issued and outstanding, while the number of shares in circulation amounted to 164,010,183).

Changes in shareholders' equity

In thousands of Polish Zlotys (PLN)	Share capital	Share premium	Treasury shares	Revaluation reserve	Retained earnings	Total equity
Balance at 1 January 2016	**20,762**	**282,873**	**-**	**3,556**	**150,507**	**457,698**
Net profit/(loss) for the year ended 31 December 2016	-	-	-	-	64,531	64,531
Payment of dividends	-	-	-	-	(21,789)	(21,789)
Acquisition of Treasury shares (see Note 3)	-	-	(140,854)	-	-	(140,854)
Balance at 31 December 2016	**20,762**	**282,873**	**(140,854)**	**3,556**	**193,249**	**359,586**
Net profit/(loss) for the year ended 31 December 2017	-	-	-	-	9,464	9,464
Revaluation reserve	-	-	-	240	(240)	-
Payment of dividends	-	-	-	-	(31,161)	(31,161)
Redemption of treasury shares	(8,259)	(132,595)	140,854	-	-	-
Balance at 31 December 2017	**12,503**	**150,278**	**-**	**3,796**	**171,312**	**337,889**

On 23 December 2016, the Company acquired 108,349,187 own shares from one of its principal shareholders, I.T.R 2012 (see Note 3) which were subsequently held in treasury. At 1 March 2017, all of the treasury shares were redeemed.

During the year ended 31 December 2017, an interim dividend for the financial year 2016 amounting to PLN 14,761 thousands total or PLN 0.09 per ordinary share, was distributed (paid on 1 March 2017) and a final dividend for the financial year 2016 amounting to PLN 16,401 thousands total or PLN 0.10 per ordinary share, was distributed (paid on 10 August 2017). During the year ended 31 December 2016, a dividend amounting to PLN 21,789 thousands total or PLN 0.08 per ordinary share, was distributed to the Company's shareholders.

According to Dutch Law, the Company has an amount (net of tax) of PLN 3,796 thousand (2016: PLN 3,556 thousand) as legal revaluation reserve relating to unrealized results of changes in fair value of an investment property owned by one of the Company's subsidiaries.

Notes to the Company Financial Statements

12. Bond loans

As at 31 December 2017, the bond loans comprise a loan principal amount of PLN 197,160 thousand plus accrued interest of PLN 1,742 thousand minus costs directly attributed to the bond issuance (which are amortized based on the effective interest method) amounting to PLN 1,594 thousand.
As at 31 December 2017 all covenants were met.
For additional information see Notes 28 and 29 to the Consolidated Financial Statements.

13. Commitments and contingencies

As at 31 December 2017, the Company had no commitments and contingencies.

As at 31 December 2017, the Company has issued guarantees for bank loans granted to subsidiaries amounting to a total of PLN 3,900 thousand (as at 31 December 2016 PLN 2,527 thousand).

14. Related party transactions

During the financial years ended 31 December 2017 and 31 December 2016, 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. For additional information see Note 39 of the Consolidated Financial Statements.

15. Financial risk management, objectives and policies

For a description of the Company's financial risk management, objectives and policies reference is made to Note 40 of the Consolidated Financial Statements.

16. 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 *In thousands of Polish Zlotys (PLN)*	**2017**	**2016**
Audit remuneration (1)	609	660
Audit remuneration for prior periods (2)	82	-
Reimbursed audit review costs (3)	(81)	(190)
Other services	-	81
Total audit remuneration for the expense of the Company	**610**	**551**

(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 213 thousand (EUR 51 thousand) for 2017 and PLN 249 thousand (EUR 60 thousand) for 2016.
(2) Additional payment for year 2016 related to Nova Królikarnia transaction.
(3) Costs in respect of the audit review of the Company's first and third quarter reports have been reimbursed in 50% to one of the Company's shareholders. For an explanation reference is made to Note 39 to the Consolidated Financial Statements (under 'Other').

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Notes to the Company Financial Statements

17. Proposed profit appropriation

For the year ended 31 December 2017, as at the date of this report, Management proposes to allocate the net profit for the year 2017 amounting to PLN 9,464 thousand to Retained earnings. This proposal has been reflected in the Company's Statement of Financial Position per 31 December 2017. However, in line with the prevailing dividend policy, management and the Board of Supervisory Directors will be evaluating the possibility of declaring a dividend during 2018 in light of the Company's financial position, taking into account (i) the current and expected balance sheet of the Company, with close observance of the all balance-sheet linked debt covenants, (ii) the financial needs of the Company aiming to be ranked amongst leading residential developers in Poland and (iii) changing market environment.

18 Subsequent events

For a description of the Company’s subsequent events, reference is made to Note 44 to the Consolidated Financial Statements.

Rotterdam,
7 March 2018

The Management Board

Nir Netzer Chief Executive Officer	**Rami Geris** Chief Financial Officer	**Andrzej Gutowski** Sales and Marketing Director
Erez Tik	**Alon Haver**	

The Supervisory Board

Amos Luzon	**Alon Kadouri**	**Ofer Kadouri**
Przemyslaw Kowalczyk	**Piotr Palenik**	**Shmuel Rofe**

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.

Independent auditor's report

To: the Shareholders and the Supervisory Board of Ronson Europe N.V.

Report on the audit of the financial statements 2017 included in the annual report

Our opinion

We have audited the financial statements 2017 of Ronson Europe N.V. (hereafter: "the Company"), based in Rotterdam, the Netherlands. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of Ronson Europe N.V. as at 31 December 2017 and of its result and its cash flows for 2017 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.
- The accompanying company financial statements give a true and fair view of the financial position of Ronson Europe N.V. as at 31 December 2017 and of its result for 2017 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

- The consolidated statement of financial position as at 31 December 2017;
- The following statements for 2017: the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows; and
- The notes to the consolidated financial statements, comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

- The company statement of financial position as at 31 December 2017;
- The company statement of profit or loss, for 2017; and
- The notes to the company financial statements, comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of Ronson Europe N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Materiality

Materiality	PLN 3.528.000 (2016: PLN 3.700.000)
Benchmark applied	0.5% of total assets
Explanation	We believe that basing our materiality on total assets best reflects what is important for the

	users of the financial statements, considering the nature of the entity's business and industry as well as the entity's current operations.

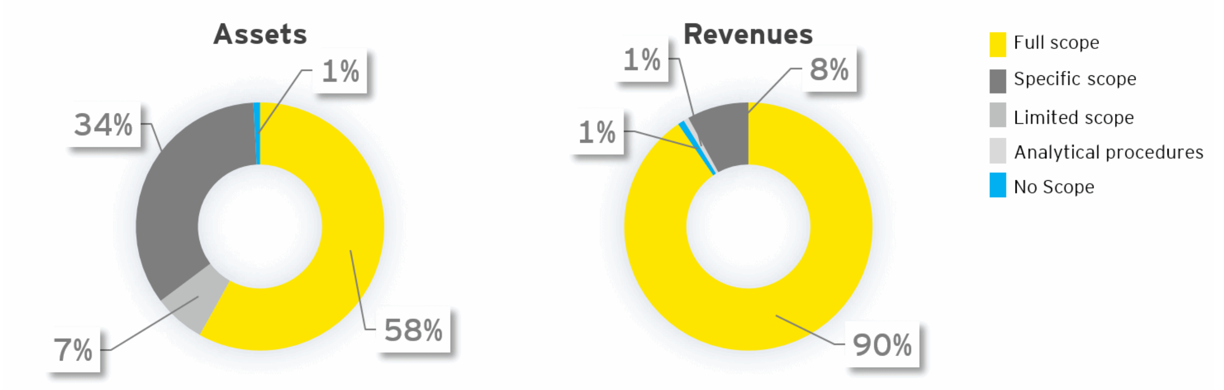
We have also taken misstatements into account and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the supervisory board that misstatements in excess of PLN 176.000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit
Ronson Europe N.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of Ronson Europe N.V.

Our group audit mainly focused on significant group entities based on the relative size of the group entity on the total assets, including the size of the work in progress, finished goods and outstanding finance positions. Significant group entities are also determined based on specific risks of material misstatements. We have performed audit procedures ourselves at the standalone figures of Ronson Europe N.V. and in joint operation with our local team in Poland, we performed full audit procedures for the significant group entities. All significant group entities are located in Poland. We performed specific audit procedures at the other group entities. In total these procedures represent 92% of the group's total assets and 98% of revenues.

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.



Our key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our audit approach	Key observations
Inventory valuation, refer to note 20		
Inventory consists of multi-family residential real estate projects under development or construction and is the most significant account in the consolidated financial statements of the Company. Inventory is measured at the lower of cost and net realizable value. The cost of inventory includes, amongst others, land or leasehold rights for land, construction costs, planning and design costs, perpetual usufruct fees and real estate taxes, borrowing costs and professional fees directly attributable to the project and construction overheads and other directly related costs. 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. The net realizable value calculation is highly dependent on estimates like, amongst others, the estimated sales prices per m², the estimated construction costs and the expected timing of sales of the units. Management assessed the valuation and accordingly possible write-downs on inventory for each project separately, according to the projection of revenues net from cost of sales.	We determined that inventory is periodically assessed by management of the Company and we reconciled the assumptions used in the net realizable value assessment to prices assumed for units not sold to actual prices received on the same projects and/or benchmark assumed sales prices with external information. We used our own EY real estate valuation specialists to assist us in obtaining an understanding of management's analyses. We evaluated the work of management, including the competence, capabilities and, where applicable, objectivity of management's specialists with respect to the net realizable value assessment. We obtained an understanding of the net realizable value assessment processes and considered the internal controls in this process adequate in design. Additionally, we performed substantive audit procedures by, amongst others, extensively discussions with management of the Company with respect to the net realizable value method applied, the key assumptions used, including comparing these assumptions to similar projects in the market and the actual realized results of the net realizable value calculations on individual projects.	We concur with management NRV analysis performed and the amount of write-offs recognized.
Revenue Recognition, refer to note 3(b) and note 6		
Revenue arising from the multi-family residential real estate projects under development or construction contracts, represents the majority of the Company's total revenue. Revenue is recognized by the Company when the significant risks and rewards of ownership of the residential units have been transferred to the buyer and when the revenue can be measured reliably. The significant risks and rewards are usually considered as transferred to the	We obtained an understanding of the sales process and considered the internal controls in this process adequate in design to mitigate the risk of incorrect and incomplete revenue recognition, including proper cut-off of revenues. Additionally, we performed substantive audit procedures by, amongst others, detailed margin analyses, extensive tests of underlying transactions to assess the correctness and completeness of recognition of revenue, including proper	We confirm that the Company's revenue recognition accounting policies were appropriately applied. We assessed that the disclosures are appropriate.

Risk	Our audit approach	Key observations
buyer when the residential units have been substantially constructed, the occupancy permit for the property has been issued, the apartment has been accepted by the customer (hand-over protocol has been signed between the buyer and the Company) and the full amount resulting from the sale agreement has been paid by the buyer. The remaining risks are considered by the Company's management as insignificant. Consequently, the proper cut-off of revenues has been identified as a key audit matter.	cut-off.	

In the audit opinion of 2016 a third key audit matter has been addressed related to the sale of development project to a major shareholder and acquisition of own shares on 23 December 2016.
This transaction has been considered as one-off transaction and non-recurring and therefore not applies as a key audit matter of 2017.

Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- Supervisory Board report;
- The Directors' report;
- Other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements;
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

The Company's management is responsible for the preparation of the other information, including the management board's report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the Company's Supervisory Board as the auditor of Ronson Europe N.V.
as of the audit for the year 2009 and have operated as statutory auditor ever since that date.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Description of responsibilities for the financial statements

Responsibilities of management and the supervisory board for the financial statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements
Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtaining an understanding of internal control relevant to the audit 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 company's internal control;
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern;
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures;
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review
had to be carried out on the complete set of financial information or specific items.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, 7 March 2018

Ernst & Young Accountants LLP

Signed by T. Wiffrie