



**MLP**  
GROUP



**MLP Group S.A. Capital Group**

Consolidated

**Annual Report**

FOR THE YEAR ENDED 31 DECEMBER 2017

This document is a translation.  
Polish version prevails.

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## Contents of Consolidated Annual Report:

<b>I. Letter of the President of Management Board to Shareholders</b>	<b>5</b>
<b>II. Statement of the Management Board</b>	<b>7</b>
<b>I. Selected financial data of MLP Group S.A. Capital Group</b>	<b>8</b>
<b>II. Consolidated financial statements for the year ended 31 December 2017</b>	<b>10</b>
<b>Approval of the consolidated financial statements</b>	<b>11</b>
<b>Consolidated statement of profit or loss and other comprehensive income</b>	<b>12</b>
<b>Consolidated statement of financial position</b>	<b>13</b>
<b>Consolidated statement of cash flows</b>	<b>14</b>
<b>Statement of changes in consolidated equity</b>	<b>15</b>
<b>Explanatory information and explanations to the consolidated financial statements</b>	<b>16</b>
<b>1. General information</b>	<b>16</b>
1.1 <i>Information on the Parent Company</i>	16
1.2 <i>Information about the Group</i>	16
1.3 <i>Changes in the Group structure</i>	18
1.4 <i>The shareholding structure of the Parent Company</i>	19
1.4.1 <i>Structure of shareholders holding, directly or through subsidiaries, at least 5% of the total number of votes at the General Meeting of Shareholders</i>	19
1.4.2 <i>Shares and rights to shares of the Parent Company owned by members of management and supervisory bodies</i>	19
<b>2. Basis for the preparation of the consolidated financial statements</b>	<b>20</b>
2.1 <i>Statement of compliance</i>	20
2.2 <i>Status of Standards Approval in the European Union</i>	20
2.2.1 <i>Standards and interpretations approved by the EU, which did not come into force as at the end of the reporting period</i>	20
2.2.2 <i>Standards and interpretations pending for approval by the EU</i>	21
2.3 <i>Basis for preparation of consolidated financial statements</i>	22
2.4 <i>Functional and presentation currency and methods applied to translation of financial data</i>	22
2.4.1 <i>Functional and presentation currency</i>	22
2.4.2 <i>Methods applied to translation of financial data</i>	22
2.5 <i>Use of estimates and judgments</i>	22
<b>3. Significant accounting policies</b>	<b>23</b>
3.1 <i>Basis of consolidation</i>	23
3.2 <i>Foreign currency</i>	23
3.3 <i>Financial instruments</i>	23
3.3.1 <i>Non-derivative financial instruments</i>	23
3.3.2 <i>Derivative financial instruments, including hedge accounting</i>	24
3.3.3 <i>Held-to-maturity financial instruments</i>	24
3.3.4 <i>Loans and receivables</i>	25
3.3.5 <i>Financial instruments at fair value through profit or loss</i>	25
3.3.6 <i>Available-for-sale financial assets</i>	25

3. 4 Equity	25
3. 4. 1 Share capital	25
3. 4. 2 Other capital reserves	26
3. 4. 3 Share premium	26
3. 4. 4 Capital reserve from valuation of hedging instruments	26
3. 4. 5 Reserve capital	26
3. 4. 6 Retained earnings	26
3. 5 Tangible fixed assets	26
3. 5. 1 Valuation of tangible fixed assets	26
3. 5. 2 Subsequent expenditures	27
3. 5. 3 Depreciation	27
3. 6 Intangible assets	27
3. 7 Investment property	27
3. 8 Investment property under construction	28
3. 9 Leased assets - The Group as a lessee	28
3. 10 Impairment of assets	28
3. 10. 1 Financial assets	28
3. 10. 2 Non-financial assets	29
3. 11 Employee benefits	29
3. 12 Cash settled share based payment	29
3. 13 Provisions	30
3. 14 Bank credits and loans	30
3. 15 Revenues	30
3. 15. 1 Services	30
3. 15. 2 Rental income	30
3. 16 Lease payments	30
3. 17 Financial income and financial costs	31
3. 18 Income Tax	31
3. 19 Earnings per share	31
3. 20 Segment reporting	32
<b>4. Financial risk management</b>	<b>32</b>
4. 1 Credit risk	32
4. 1. 1 Trade and other receivables	32
4. 1. 2 Loans granted	32
4. 2 Liquidity risk	32
4. 3 Market risk	33
4. 3. 1 Currency risk	33
4. 3. 2 Interest rate risk	33
4. 4 Capital management	34
<b>5. Segment reporting</b>	<b>34</b>
<b>6. Revenues</b>	<b>36</b>
<b>7. Other operating income</b>	<b>36</b>
<b>8. Other operating costs</b>	<b>36</b>
<b>9. Selling and administrative expenses</b>	<b>37</b>
<b>10. Financial income and costs</b>	<b>37</b>
<b>11. Income tax</b>	<b>39</b>
<b>12. Investment property</b>	<b>40</b>
12.1 The Fair value of the Group's investment property	41
<b>13. Deferred tax</b>	<b>49</b>
<b>14. Other investments</b>	<b>51</b>
<b>15. Trade and other receivables</b>	<b>51</b>
<b>16. Cash and cash equivalents</b>	<b>52</b>
<b>17. Explanatory information to consolidated statement of cash flows</b>	<b>52</b>
17.1 Cash flow related to loans granted and received	52
17.2 Changes in trade and other receivables	53
17.3 Changes in short-term and other liabilities	54

<b>18. Equity</b>	<b>54</b>
18.1 Share capital	54
<b>19. Earnings per share</b>	<b>54</b>
<b>20. Credits, loans, other debt instruments and other liabilities</b>	<b>55</b>
20.1 Long-term liabilities	55
20.2 Short-term liabilities	55
20.3 Bond liabilities	56
20.4 Credits, loans secured and unsecured on the Group's assets	56
<b>21. Payroll liabilities</b>	<b>58</b>
<b>22. Trade and other liabilities</b>	<b>58</b>
<b>23. Financial instruments</b>	<b>59</b>
23.1 Valuation of financial instruments	59
23.1.1 Financial assets	59
23.1.2 Financial liabilities	60
23.2 Other disclosures relating to financial instruments	60
23.3 The nature and extent of risks related to financial instruments	62
23.3.1 Liquidity risk	62
23.3.2 Currency risk	63
23.3.3 Interest rate risk	64
23.3.4 Credit risk	65
<b>24. Operating lease</b>	<b>66</b>
<b>25. Contractual investment liabilities</b>	<b>66</b>
<b>26. Contingent liabilities and pledges</b>	<b>66</b>
26.1 Mortgages	66
26.2 Financial and registered pledges on shares	68
26.3 Pledges on cash receivables	71
26.4 Guarantees	71
26.5 Additional guarantees	71
26.6 Other security	71
26.7 Other contingent liability	72
<b>27. Related party transactions</b>	<b>73</b>
27.1 Loans granted and received	73
27.2 Revenues and expenses	73
<b>28. Significant litigation and disputes</b>	<b>73</b>
28.1 Czerwona Torebka S.A.	73
28.2 CreditForce Holding B.V	74
28.3 OLPIZ Sp. z o.o.	74
<b>29. Significant events during the financial year and subsequent events</b>	<b>74</b>
<b>30. Remuneration paid or due to members of management and supervisory bodies</b>	<b>76</b>
<b>31. Employment structure</b>	<b>77</b>
<b>IV. MLP Group S.A. Capital Group Management Board's report on activities for the year ended 31 December 2017</b>	<b>78</b>
<b>V. Independent Auditor's Report</b>	<b>135</b>

## I. Letter of the President of Management Board to Shareholders

Dear Shareholders,

*On behalf of the Management Board, I am pleased to present you with the Annual Report of the MLP Group S.A. Group for 2017. Last year was another very good period for us. We managed to strengthen the MLP Group's position in the dynamically developing warehouse space market.*

### **Macroeconomic situation**

*In 2017, the Polish economy developed considerably faster than in the previous year and the labor market improved as well. The Gross Domestic Product in Poland rose by 4.6% (compared to a 2.9% increase in 2016). On the other hand, the unemployment rate at the end of December last year decreased by 6.6% (from 8.2% the year before) and reached the lowest point in 25 years. Domestic consumer demand continued to be the major growth factor, with a positive impact exerted by investment demand. According to forecasts for 2018, the Polish economy will continue to growth at a high rate, with the GDP increasing by over 4%, which will contribute to further dynamic growth of the warehouse space market.*

### **Warehouse space market in Poland, Germany and Romania**

*Last year was another year, after which we can say that the warehouse space market in Poland is in a very good condition. In 2017, the total space leased under new contracts and expansions exceeded 3.1 million m<sup>2</sup>, which is nearly 1 million m<sup>2</sup> more than the year before. Due to excellent locations, well-developed infrastructure and attractive rents, Central Poland was the hottest region in Poland in 2017. This is where 30% of net demand is located.*

*Developers make efforts to satisfy every need. So, the growing demand induces developers to make further investments. In 2017, almost 2.3 million m<sup>2</sup> was handed over for use, additional 1.17 million m<sup>2</sup> is being built, of which nearly one third is built speculatively, or without binding contracts. Over the last 5 years, warehouse space resources have doubled in size, reaching 13.5 million m<sup>2</sup> at the end of 2017.*

*The vacancy rate was 6% at the end of the previous year. The highest vacancy rate is in Kraków – 16.6%. The lowest rate of instantly available space is in the Central Poland – 1.4%. In 2018, we are expecting a similar growth rate of the Polish market.*

*Favorable conditions also prevail on the German and Romanian markets, where we are developing our business. Germany remains the largest warehouse space market in Europe and the volume of transactions conducted there in 2017 reached the highest historical levels of 6.5 million m<sup>2</sup>. That was 15% more than the average of 2017-2016. On the other hand, in Romania, the total warehouse and logistics space contracted for lease was 515 thousand m<sup>2</sup> in 2017. Out of the above, new space represented 450 thousand m<sup>2</sup>, which was also a record-breaking level for the Romanian market.*

### **Events in the MLP Group in 2017**

*2017 was another year of dynamic growth for our Group. We managed to increase the space handed over to our tenants by 141.5 m<sup>2</sup> to 432.4 m<sup>2</sup>. At the same time, at the end of last year, we had signed leases for the total space of 501.6 thousand m<sup>2</sup>, or 35% more than at the end of 2016. At the end of the previous year, we continued the construction work and had 72.4 thousand m<sup>2</sup> square meters in preparation. We also had a land bank allowing us to build additionally over 970 thousand m<sup>2</sup> of space.*

*The MLP Group maintains a good financial standing. Last year, our net asset value (NAV) increased by 7.54% to PLN 726.7 million. In 2017, the Group generated PLN 47.3 million in net profit, compared to PLN 66.4 million in 2016. The lower result was caused mainly by the revaluation of investment properties, which had a much greater positive impact in 2016 than last year. On the other hand, the Group's consolidated revenues reached PLN 100.3 million and were 0.7% lower than the year before. The slight decline in our turnover was influenced by the settlement of a developer contract for the completion of construction and commercialization of the MLP Bieruń park, which was sold by the MLP Group in 2015, while most of the associated revenues were earned in 2016. However, when we look into rent revenue, which is the major source of revenues in our core business, an increase of 14.3% was achieved in 2017 compared to the previous year. This growth was driven by the fact that in 2017, the Group enlarged the space handed over for lease by the already mentioned 141.5 thousand m<sup>2</sup> of space. Most of the space was delivered in the second half of 2017, which did not make a very significant contribution to the increase in the rent revenues.*

*Currently, the Group operates seven logistics parks in Poland: MLP Pruszków I, MLP Pruszków II, MLP Poznań, MLP Lublin, MLP Teresin, MLP Wrocław, MLP Gliwice, and one logistics park under construction – MLP Czeladź. In Germany, the Group currently operates one logistics park – MLP Unna. In Romania, the Group purchased land for development of a new logistics park – MLP Bucharest West. Under a development agreement, the Group is also responsible for the commercialization of the MLP Bieruń logistics park, which was sold in 2015. The Group also owns plots of land and has signed reservation agreements to purchase new plots for its planned logistics parks. As a result, the portfolio of current and potential properties managed by the MLP Group includes a total of sixteen logistics parks located in Europe.*

#### **Plans of the MLP Group for 2018**

*The Group's strategic objective is to constantly increase the warehouse space held in the Polish market and to continue operations abroad. In 2018, the Management Board of MLP Group plans to purchase two new plots of land in Poland to develop new logistics parks and expand the existing ones. Outside Poland, the MLP Group's priority is the German market, where the Group intends to develop its Unna park and plans to acquire two new projects: one in Mönchengladbach in the Ruhr Area and one in the south of Germany. In addition to the German market, the Group also plans to expand its operations in Romania by launching construction of new warehouse facilities in the existing park in Bucharest/Chitila. Execution of these projects ensure further very dynamic growth of the Group's shareholder value.*

*The Management Board believes that the Group has an excellent financial standing. We have a very strong capital structure allowing us to pursue long-term strategic objectives, including our own land bank located in attractive locations and highly qualified management staff. All of the above factors, supported by an improvement of Poland's macroeconomic indicators, should promote the achievement of MLP Group's long-term strategic objectives.*

*We would like to thank all of our shareholders for their unfailing support and trust. We will make every effort to perform our strategy effectively and consistently, achieve the best possible financial results and steadily increase the value of the MLP Group S.A. Group.*

**Radosław T. Krochta**  
CEO  
President of the Management Board

## II. Statement of the Management Board

The consolidated financial statements of the MLP Group S.A. Group for the period from 1 January 2017 to 31 December 2017 and comparative data for the period from 1 January 2016 to 31 December 2016 have been prepared in compliance with the applicable accounting policies provided in Note 3 and present a true, accurate and fair view of the Group's property and financial standing and its financial performance. The Management Board Report on the activity of the Issuer's Group presents a true view of the developments, achievements and standing of the MLP Group S.A. Group, including a description of major threats and risks.

We also represent that the entity authorized to audit the financial statements that audited the consolidated financial statements of the MLP Group S.A. Group for the 12-month period ended 31 December 2017 – KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa – was selected in compliance with law. The entity and the statutory auditors performing the audit satisfied the conditions for expressing an unbiased and independent opinion on the audit, in compliance with the applicable laws and professional standards.

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**Radosław T. Krochta**

*President of the Management Board*

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**Michael Shapiro**

*Vice-President of the Management*

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**Tomasz Zabost**

*Member of the Management Board*

*Pruszków, 14 March 2018 r.*

## I. Selected financial data of MLP Group S.A. Capital Group

Average exchange rates of Polish złoty against Euro during the period covered by the consolidated financial statements:

	31 December 2017	31 December 2016
Average exchange rate during the period *	4,2447	4,3757
Exchange rate at the last day of the period	4,1709	4,4240

\* Arithmetic average of the average exchange rates published on the last day of each month in the reporting period.

Main positions of the consolidated statement of financial position converted into euro:

	as at	31 December 2017		31 December 2016	
		PLN thousand	EUR thousand	PLN thousand	EUR thousand
Non-current assets		1 240 954	297 527	1 042 700	235 692
Current assets		117 396	28 146	135 281	30 579
<b>Total assets</b>		<b>1 358 350</b>	<b>325 673</b>	<b>1 177 981</b>	<b>266 271</b>
Long-term liabilities		569 226	136 476	435 140	98 359
Short-term liabilities		62 473	14 978	67 115	15 171
Equity, including:		726 651	174 219	675 726	152 741
Share capital		4 529	1 086	4 529	1 024
<b>Total equity and liabilities</b>		<b>1 358 350</b>	<b>325 673</b>	<b>1 177 981</b>	<b>266 271</b>
Number of shares (in units)		18 113 255	18 113 255	18 113 255	18 113 255
The book value and diluted book value per share attributable to the owners of the Parent Company (in PLN)		40,12	9,62	37,31	8,43

The average exchange rate published by the National Bank of Poland (NBP) on the last day of the reporting period was used to translate the consolidated statement of financial position.

The main positions of the consolidated statement of profit or loss and other comprehensive income converted into euro:

	for the year ended	31 December 2017		31 December 2016	
		PLN thousand	EUR thousand	PLN thousand	EUR thousand
Revenues		100 311	23 632	101 033	23 090
Other operating income		258	61	1 276	292
Gain on revaluation of investment property		8 602	2 027	58 304	13 324
Selling and administrative expenses		(52 533)	(12 376)	(54 675)	(12 495)
Operating profit		55 156	12 994	102 352	23 391
Profit before taxation		56 227	13 246	87 099	19 905
<b>Net profit</b>		<b>47 287</b>	<b>11 140</b>	<b>66 415</b>	<b>15 178</b>
Total comprehensive income		50 925	11 997	70 018	16 002
Net profit attributable to the owners of the Parent Company		47 287	11 140	66 415	15 178
Net profit and diluted net profit per share attributable to the owners of the Parent Company (in PLN)		2,61	0,61	3,67	0,84



An average Euro exchange rate calculated as an arithmetic average of the average exchange rates published on the last day of each month in the reporting period by the National Bank of Poland (NBP) on that day was used to translate the consolidated profit or loss and other comprehensive income.

The main positions of the consolidated statement of cash flows converted into Euro:

<i>for the year ended</i>	<b>31 December 2017</b>		<b>31 December 2016</b>	
	<b>PLN</b>	<b>EUR</b>	<b>PLN</b>	<b>EUR</b>
	<b>thousand</b>	<b>thousand</b>	<b>thousand</b>	<b>thousand</b>
Net cash flow from operating activities	55 034	12 965	21 171	4 838
Cash flow from investing activities	(183 513)	(43 233)	(55 583)	(12 703)
Cash flow from financing activities	133 938	31 554	(26 872)	(6 151)
<b>Total net cash flows</b>	<b>5 459</b>	<b>1 286</b>	<b>(61 284)</b>	<b>(14 006)</b>

An average Euro exchange rate calculated as an arithmetic average of the average exchange rates published on the last day of each month in the reporting period by the National Bank of Poland (NBP) on that day was used to translate the consolidated statement of cash flows.

<i>as at</i>	<b>31 December 2017</b>		<b>31 December 2016</b>	
	<b>PLN</b>	<b>EUR</b>	<b>PLN</b>	<b>EUR</b>
	<b>thousand</b>	<b>thousand</b>	<b>thousand</b>	<b>thousand</b>
Cash at the beginning of the period	61 694	13 945	122 978	28 858
Cash at the end of the period	64 827	15 543	61 694	13 945

To translate the above data of the consolidated statement of cash flows the following exchange rates were used:

- the average exchange rate published by the National Bank of Poland (NBP) on the last day of the reporting period was used for the position "Cash at the end of the period"
- the average exchange rate published by the National Bank of Poland (NBP) on the last day of the period preceding the reporting period was used for the position "Cash at the beginning of the period"

Euro exchange rate on the last day of the reporting period ended 31 December 2015 was 4,2615 EUR/PLN.



# **MLP Group S.A. Capital Group**

**Consolidated financial statements**

**for the year ended 31 December 2017**  
*prepared in accordance with IFRS EU*

## II. Consolidated financial statements

### Approval of the consolidated financial statements

On 14 March 2018 the Management Board of the Parent Company MLP Group S.A. approved the consolidated financial statements ("Consolidated Financial Statements") of MLP Group S.A. Capital Group ("Group") for the period from 1 January 2017 to 31 December 2017 for publication.

Consolidated financial statements for the period from 1 January 2017 to 31 December 2017 have been prepared in accordance with International Financial Reporting Standards as approved by the European Union ("IFRS EU"). Information is presented in this report in the following sequence:

1. Consolidated statement of profit or loss and other comprehensive income for the period from 1 January 2017 to 31 December 2017, with net profit of PLN 47 287 thousand.
2. Consolidated statement of financial position as at 31 December 2017, with total assets and total liabilities and equity in the amount of PLN 1 358 350 thousand.
3. Consolidated statement of cash flows for period from 1 January 2017 to 31 December 2017, with a net cash increase of PLN 3 133 thousand.
4. Statement of changes in consolidated equity for the period from 1 January 2017 to 31 December 2017, with an equity increase of PLN 50 925 thousand.
5. Explanatory information and explanations to the consolidated financial statements.

The consolidated financial statements have been prepared in PLN thousand, unless otherwise stated.

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**Radosław T. Krochta**

*President of the Management Board*

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**Michael Shapiro**

*Vice-President of the Management*

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**Tomasz Zabost**

*Member of the Management Board*

## Consolidated statement of profit or loss and other comprehensive income

	<i>for the year ended 31 December</i>	<b>Note</b>	<b>2017</b>	<b>2016</b>
Revenues		6	100 311	101 033
Other operating income		7	258	1 276
Gain on revaluation of investment property		12	8 602	58 304
Selling and administrative expenses		9	(52 533)	(54 675)
Other operating costs		8	(1 482)	(3 586)
<b>Operating profit</b>			<b>55 156</b>	<b>102 352</b>
Financial income		10	16 662	4 826
Financial costs		10	(15 591)	(20 079)
<b>Net financial income/(costs)</b>			<b>1 071</b>	<b>(15 253)</b>
<b>Profit before taxation</b>			<b>56 227</b>	<b>87 099</b>
Corporate income tax		11	(8 940)	(20 684)
<b>Net profit</b>			<b>47 287</b>	<b>66 415</b>
<b>Other comprehensive income</b>				
Currency translation differences on foreign operations			(540)	-
Effective part of changes in the fair value of cash flow hedges			5 158	4 448
Corporate income tax on other comprehensive income			(980)	(845)
<b>Other comprehensive income (net of tax)</b>			<b>3 638</b>	<b>3 603</b>
<b>Total comprehensive income</b>			<b>50 925</b>	<b>70 018</b>
<b>Net profit attributable to:</b>				
Owners of the Parent Company			47 287	66 415
<b>Net profit</b>			<b>47 287</b>	<b>66 415</b>
<b>Comprehensive income attributable to:</b>				
Owners of the Parent Company			50 925	70 018
<b>Total comprehensive income</b>			<b>50 925</b>	<b>70 018</b>
<b>Profit per share:</b>		19		
- Basic and diluted profit for the period attributable to ordinary shareholders of the parent company (in PLN)			2,61	3,67

## Consolidated statement of financial position

	<i>as at</i>	<b>31 December</b>	<b>31 December</b>
	<b>Note</b>	<b>2017</b>	<b>2016</b>
<b>Non-current assets</b>			
Tangible fixed assets		698	960
Intangible assets		12	20
Advances for intangible assets		726	-
Investment property	12	1 162 880	968 524
Other long-term investments	14	68 594	65 964
Other long-term assets		599	51
Deferred tax assets	13	7 445	7 181
<b>Total non-current assets</b>		<b>1 240 954</b>	<b>1 042 700</b>
<b>Current assets</b>			
Inventories		245	267
Short-term investments	14	22 139	22 884
Corporate income tax receivables	15	1 125	971
Trade and other receivables	15	25 926	42 481
Other short-term investments	14	3 134	6 984
Cash and cash equivalents	16	64 827	61 694
<b>Total current assets</b>		<b>117 396</b>	<b>135 281</b>
<b>TOTAL ASSETS</b>		<b>1 358 350</b>	<b>1 177 981</b>
<b>Equity</b>			
	18		
Share capital		4 529	4 529
Other capital reserve		81 384	81 384
Share premium		71 121	71 121
Reserve capital		153 963	153 963
Capital reserve from valuation of hedging instruments		(208)	(4 386)
Currency-translation differences on subordinated entities		(540)	-
Retained earnings		416 402	369 115
<b>Total equity</b>		<b>726 651</b>	<b>675 726</b>
<b>Long-term liabilities</b>			
Credits, loans and other debt instruments	20.1	448 639	327 068
Deferred tax liabilities	13	100 253	93 778
Other long-term liabilities	20.1	20 334	14 294
<b>Total long-term liabilities</b>		<b>569 226</b>	<b>435 140</b>
<b>Short-term liabilities</b>			
Credits, loans and other debt instruments	20.2	21 278	13 810
Other short-term liabilities	20.2	43	6 196
Payroll liabilities	21	2 127	2 205
Corporate income tax liabilities	22	1 065	939
Trade and other liabilities	22	37 960	43 965
<b>Total short-term liabilities</b>		<b>62 473</b>	<b>67 115</b>
<b>Total liabilities</b>		<b>631 699</b>	<b>502 255</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1 358 350</b>	<b>1 177 981</b>

## Consolidated statement of cash flows

	<i>for the year ended 31 December</i>	Note	2017	2016
<b>Cash flows from operating activities</b>				
<b>Profit before taxation</b>			<b>56 227</b>	<b>87 099</b>
<i>Adjustments for:</i>				
Depreciation and amortization			262	230
Change in fair value of investment properties			(8 602)	(58 304)
Net interest			13 775	11 256
Foreign exchange differences			(16 220)	10 284
Other			(548)	(53)
Changes in trade and other receivables		17.2	21 791	(23 375)
Changes in short-term and other liabilities		17.3	(7 914)	(2 254)
<b>Cash generated from operating activities</b>			<b>58 771</b>	<b>24 883</b>
Income tax paid			(3 737)	(3 712)
<b>Net cash from operating activities</b>			<b>55 034</b>	<b>21 171</b>
<b>Cash flows from investing activities</b>				
Interest received			97	366
Repayment of loans granted			304	7
Purchase of investment property, tangible fixed assets and intangible assets			(178 474)	(65 046)
Disposal of intangible assets and tangible fixed assets			85	1
Other investment disposals			(5 525)	-
Other investment inflows			-	9 089
<b>Cash from investing activities</b>			<b>(183 513)</b>	<b>(55 583)</b>
<b>Cash flows from financing activities</b>				
Proceeds from credits and loans		17.1	85 596	48 205
Repayment of credits and loans		17.1	(20 732)	(20 845)
Issue of debt securities			84 310	-
Dividends and other payments to shareholders			-	(41 660)
Interest paid			(14 765)	(12 572)
Paid commission on the loan			(471)	-
<b>Cash from financing activities</b>			<b>133 938</b>	<b>(26 872)</b>
<b>Total cash flow</b>			<b>5 459</b>	<b>(61 284)</b>
<b>Cash and cash equivalents at the beginning of the period</b>		16	<b>61 694</b>	<b>122 978</b>
Foreign exchange differences on cash and cash equivalents			(2 326)	-
<b>Cash and cash equivalents at the end of the period</b>		16	<b>64 827</b>	<b>61 694</b>

## Statement of changes in consolidated equity

### Equity attributable to shareholders of the Parent Company

	Share capital	Other capital reserve	Share premium	Reserve capital	Capital reserve from valuation of hedging instruments	Currency translation differences on the subordinated entities	Retained earnings	Total equity
<b>Equity as at 1 January 2016</b>	<b>4 529</b>	<b>81 384</b>	<b>71 121</b>	<b>153 963</b>	<b>(7 989)</b>	-	<b>344 360</b>	<b>647 368</b>
<b><u>Comprehensive income:</u></b>								
Profit for the year	-	-	-	-	-	-	66 415	<b>66 415</b>
Total other comprehensive income	-	-	-	-	3 603	-	-	<b>3 603</b>
<b>Total comprehensive income for the year ended 31 December 2016</b>	-	-	-	-	<b>3 603</b>	-	<b>66 415</b>	<b>70 018</b>
Dividend payment	-	-	-	-	-	-	(41 660)	<b>(41 660)</b>
<b>Equity as at 31 December 2016</b>	<b>4 529</b>	<b>81 384</b>	<b>71 121</b>	<b>153 963</b>	<b>(4 386)</b>	-	<b>369 115</b>	<b>675 726</b>
<b>Equity as at 1 January 2017</b>	<b>4 529</b>	<b>81 384</b>	<b>71 121</b>	<b>153 963</b>	<b>(4 386)</b>	-	<b>369 115</b>	<b>675 726</b>
<b><u>Comprehensive income:</u></b>								
Profit for the year	-	-	-	-	-	-	47 287	<b>47 287</b>
Inne całkowite dochody ogółem	-	-	-	-	4 178	(540)	-	<b>3 638</b>
<b>Total comprehensive income for the year ended 31 December 2017</b>	-	-	-	-	<b>4 178</b>	<b>(540)</b>	<b>47 287</b>	<b>50 925</b>
<b>Equity as at 31 December 2017</b>	<b>4 529</b>	<b>81 384</b>	<b>71 121</b>	<b>153 963</b>	<b>(208)</b>	<b>(540)</b>	<b>416 402</b>	<b>726 651</b>

## Explanatory information and explanations to the consolidated financial statements

### 1. General information

#### 1. 1 Information on the Parent Company

The Parent Company of the Group is MLP Group S.A. ("Company", "Parent Company", "Parent Entity", "Issuer"), which is a joint-stock company registered in Poland, shares of which are publicly traded. The Company headquarters is seated in Pruszków, 3-go Maja 8 Street.

The Parent Company was established as a result of a transformation of the state company Zakłady Naprawcze Taboru Kolejowego im. Bohaterów Warszawy seated in Pruszków into a joint stock company fully owned by the state. The notarial deed on transformation was drawn up on 18 February 1995. The company operates under the name of MLP Group S.A. by virtue of resolution of the Company's General Meeting of 27 June 2007.

Currently the Company is registered in the National Court Register in the District Court for the Capital City of Warsaw, XIV Commercial Department under the National Court Register number of 0000053299.

As at the date of preparation of this consolidated financial statements, the composition of the Parent Company Management and Supervisory Board is as follows:

#### The Management Board of the Parent Company:

- Radosław T. Krochta - President of the Management Board
- Michael Shapiro - Vice-President of the Management Board
- Tomasz Zabost - Member of the Management Board

#### Skład Rady Nadzorczej Jednostki Dominującej:

- Shimshon Marfogel - President of the Supervisory Board
- Eytan Levy - Vice-President of the Supervisory Board
- Daniel Nimrodi <sup>1)</sup> - Member of the Supervisory Board
- Guy Shapira - Member of the Supervisory Board
- Jacek Tucharz - Member of the Supervisory Board
- Maciej Matusiak - Member of the Supervisory Board

<sup>1)</sup> As of 31 December 2017, Mr. Yosef Zvi Meir resigned from the position of a Supervisory Board Member. To fill in his position, one of the Company's shareholders, in exercise of the powers conferred by the Company's Articles of Association, appointed Mr. Daniel Nimrodi, with effect as of 1 January 2018.

#### 1. 2 Information about the Group

As at the end of the reporting period MLP Group S.A. Capital Group ("Capital Group", "Group") consists of MLP Group S.A. as the Parent Company and 29 subsidiaries.

The higher level parent company for the Capital Group is CAJAMARCA HOLLAND B.V. which is registered in the Netherlands, 2 Martinus Nijhofflaan, 2624 ES Delft.

The ultimate parent company of the Group is Israel Land Development Company Ltd., registered in Tel Aviv, Israel ("ILDC"). ILDC shares are listed on the Stock Exchange in Tel Aviv.

The core business of the Parent Company and its subsidiaries are: management, buying and selling of real estate, rental of real estate, the management of residential and non-residential properties, works related to the construction of buildings and other construction (see note 5.).



**As at 31 December 2017, MLP Group S.A. Capital Group consisted of the following entities:**

Entity	Country of registry	Direct and indirect share of the Parent Company in the equity		Direct and indirect share of the Parent Company in the voting rights	
		31 December 2017	31 December 2016	31 December 2017	31 December 2016
MLP Pruszków I Sp. z o.o.	Poland	100%	100%	100%	100%
MLP Pruszków II Sp. z o.o.	Poland	100%	100%	100%	100%
MLP Pruszków III Sp. z o.o.	Poland	100%	100%	100%	100%
MLP Pruszków IV Sp. zo.o.	Poland	100%	100%	100%	100%
MLP Moszna I Sp. z o.o. <sup>1)</sup>	Poland	-	100%	-	100%
MLP Poznań Sp. z o.o.	Poland	100%	100%	100%	100%
MLP Lublin Sp. z o.o.	Poland	100%	100%	100%	100%
MLP Poznań II Sp. z o.o.	Poland	100%	100%	100%	100%
MLP Spółka z ograniczoną odpowiedzialnością SKA	Poland	100%	100%	100%	100%
MLP Energy Sp. z o.o.	Poland	100%	100%	100%	100%
MLP Property Sp. z.o.o.	Poland	100%	100%	100%	100%
MLP Bieruń Sp. z o.o.	Poland	100%	100%	100%	100%
MLP Bieruń I Sp. z o.o.	Poland	100%	100%	100%	100%
MLP Sp. z o.o.	Poland	100%	100%	100%	100%
MLP Teresin Sp. z o.o.	Poland	100%	100%	100%	100%
MLP Poznań West Sp. z o.o.	Poland	100%	100%	100%	100%
MLP FIN Sp. z o.o.	Poland	100%	100%	100%	100%
LOKAFOP 201 Sp. z o.o.	Poland	100%	100%	100%	100%
LOKAFOP 201 Spółka z ograniczoną odpowiedzialnością SKA	Poland	100%	100%	100%	100%
MLP Wrocław Sp. z o.o.	Poland	100%	100%	100%	100%
MLP Gliwice Sp. z o.o.	Poland	100%	100%	100%	100%
MLP Łódź Sp. z o.o.	Poland	100%	100%	100%	100%
MLP Czeladź Sp z o.o.	Poland	100%	100%	100%	100%
MLP Temp Sp. z o.o.	Poland	100%	100%	100%	100%
MLP Dortmund LP Sp. z o.o. <sup>2)</sup>	Poland	100%	-	100%	-
MLP Dortmund GP Sp. z o.o. <sup>3)</sup>	Poland	100%	-	100%	-
MLP Logistic Park Germany I Sp. z o.o. &Co KG. <sup>4)</sup>	Germany	100%	-	100%	-
MLP Poznań West II Sp. z o.o. <sup>5)</sup>	Poland	100%	-	100%	-
MLP Bucharest West Sp. z o.o. <sup>6)</sup>	Poland	100%	-	100%	-
MLP Bucharest West SRL <sup>7)</sup>	Romania	100%	-	100%	-
MLP Teresin II Sp. z o.o. <sup>8)</sup>	Poland	100%	-	100%	-

### 1. 3 Changes in the Group structure

<sup>1)</sup> On 2 March 2017, MLP Pruszków III Sp. z o.o. and MLP Moszna I Sp. z o.o. merged, the entire assets of MLP Moszna I Sp. z o.o. were transferred to MLP Pruszków III Sp. z o.o.

<sup>2)</sup> On 3 March 2017 a new company of the MLP Group S.A. Capital Group, MLP Dortmund LP Sp. z o.o. was established. The company was registered in the National Court Register on 9 March 2017. Shares in newly created company were acquired entirely by MLP Group S.A. (100 shares with a total nominal value of PLN 5,000).

<sup>3)</sup> On 3 March 2017 a new company of the MLP Group S.A. Capital Group, MLP Dortmund GP Sp. z o.o. was established. The company was registered in the National Court Register on 8 March 2017. Shares in newly created company were acquired entirely by MLP Group S.A. (100 shares with a total nominal value of PLN 5,000).

<sup>4)</sup> On 20 March 2017 a new company of the MLP Group S.A. Capital Group, MLP Logistic Park Germany I Sp. z o.o. &Co KG was established.

<sup>5)</sup> On 12 April 2017 a new company of the MLP Group S.A. Capital Group, MLP Poznań West II Sp. z o.o. was established. The company was registered in the National Court Register on 18 April 2017. Shares in newly created company were acquired entirely by MLP Group S.A. (100 shares with a total nominal value of PLN 5,000).

<sup>6)</sup> On 28 April 2017 a new company of the MLP Group S.A. Capital Group, MLP Bucharest West Sp. z o.o. was established. The company was registered in the National Court Register on 5 May 2017. Shares in newly created company were acquired entirely by MLP Group S.A. (100 shares with a total nominal value of PLN 5,000).

<sup>7)</sup> On 14 July 2017 a new company of the MLP Group S.A. Capital Group, MLP Bucharest West SRL was established. Shares in newly created company were acquired by MLP Bucharest West Sp. z o.o. 4,564 shares (99,98%) and MLP Property Sp. z o.o. 1 share (0,02%).

<sup>8)</sup> On 24 October 2017 a new company of the MLP Group S.A. Capital Group, MLP Teresin II Sp. z o.o. was established. Shares in newly created company were acquired entirely by MLP Group S.A. (100 shares with a total nominal value of PLN 5,000).

The consolidated financial statements for the period ended 31 December 2017 includes financial statements of the Parent Company and subsidiaries controlled by the Parent Company ("the Group").

### 1. 4 The shareholding structure of the Parent Company

#### 1. 4. 1 Structure of shareholders holding, directly or through subsidiaries, at least 5% of the total number of votes at the General Meeting of Shareholders

Since the publication of the last quarterly report, the structure of Shareholders who hold, directly or through subsidiaries, at least 5% of the total number of votes at the General Meeting of Shareholders has not changed and at the end of the reporting period was as follows:

Shareholder	Number of shares and votes at the General Meeting of Shareholders	% share in the capital and votes at the General Meeting of Shareholders
CAJAMARCA Holland BV	10 319 842	56,98%
Other shareholders	2 581 093	14,24%
THESINGER LIMITED <sup>2)</sup>	1 771 320	9,78%
Aegon Powszechnie Towarzystwo Emerytalne S.A. <sup>1)</sup>	1 149 775	6,35%
MetLife OFE	948 387	5,24%
GRACECUP TRADING LIMITED	641 558	3,54%
MIRO B.V. <sup>3)</sup>	452 955	2,50%
Shimshon Marfogel <sup>2)</sup>	149 155	0,82%
MIRO LTD. <sup>3)</sup>	99 170	0,55%
<b>Total</b>	<b>18 113 255</b>	<b>100,00%</b>

<sup>1)</sup> Aegon Powszechne Towarzystwo Emerytalne S.A. ("Towarzystwo") took over the management of Nordea Otwarty Fundusz Emerytalny ("Nordea OFE") on 1 September 2017, resulting in the total share of funds managed by the Company, namely Aegon Open Pension Fund ("Aegon OFE") and Nordea OFE, in the total number of votes at the General Meeting of the Company exceeded 5% of votes.

Prior to the management acquisition of the Nordea OFE by Towarzystwo described above:

- Aegon OFE held 809,036 shares in the Company, representing 4.47% of its share capital and entitled to 809,036 votes, ie 4.47% of the total number of votes,
- Nordea OFE held 340,739 shares of the Company, representing 1.88% of its share capital and entitled to 340,739 votes, ie 1.88% of the total number of votes.

On 17 November 2017, as a result of the completion of liquidation of the Nordea Open-end Pension Fund ("Nordea OFE"), all the assets of Nordea OFE were transferred to Aegon OFE and Aegon OFE entered into all the rights and obligations of Nordea OFE.

After the changes described above, as at 17 November 2017, the Aegon OFE fund managed by the Pension Fund Company held a total of 1,149,775 shares in the Company, which constituted 6.35% of its share capital and entitled to 1,149,775 votes, or 6.35% of all the votes.

<sup>2)</sup> As a result of the settlement of the transaction of September 29, 2017, the ownership of the Company's shares was reduced by Thesinger Limited. The transaction involved the transfer of 149,155 shares of the MLP Group S.A. representing 0.8% of the share capital of MLP Group S.A. by Thesinger Ltd. to Mr. Shimshon Marfogel, Chairman of the Company's Supervisory Board, and was included in connection with the execution of the profit distribution program adopted on 31 December 2008 by the Israel Land Development Company Ltd located in Israel and annex to the May 2007 employment contract between Mr. Shimshon Marfogel and the Israel Land Development Company Ltd located in Israel in exchange for shares in Thesinger Ltd. of the same market value.

<sup>3)</sup> Miro B.V. seated in Delft, Netherlands is the parent company of MIRO Ltd. seated in Limassol, Cyprus, holding 100 % of shares in its share capital.

#### **1. 4. 2 Shares and rights to shares of the Parent Company owned by members of management and supervisory bodies**

Michael Shapiro holds indirectly, through controlled by himself in 100% MIRO B.V. and MIRO Ltd., 3,05% in share capital of MLP Group S.A. and by 25% shares in share capital held by MIRO B.V. in Cajamarca Holland B.V. economically participates in 14.24% of MLP Group S.A. share capital, which results in effective economic share of 17.29% in MLP Group S.A.

Chairman of the Supervisory Board of Shimshon Marfogel indirectly, through a 7.86% of shares capital in the company holding the Issuer's shares (Thesinger Limited) participates economically in 0.77% of the share capital of MLP Group and directly through the shares acquired in September of 0.82% (transaction described in note 1.4.1) share in the share capital of the Company, which together gives an economically efficient share of 1.59% in the share capital of MLP Group SA

Members of the Supervisory Board do not directly hold shares of the Company.

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

### 2. 1 Statement of compliance

MLP Group S.A. Capital Group prepared the consolidated financial statements in accordance with the accounting standards issued by the International Accounting Standards Board approved by the European Union, defined as the International Financial Reporting Standards ("IFRS EU"). The Group has applied all Standards and Interpretations adopted by the European Union except for the Standards and Interpretations listed below that are awaiting approval of the European Union and the Standards and Interpretations that have been approved by the European Union, but not yet effective.

### 2. 2 Status of Standards Approval in the European Union

#### 2. 2. 1 Standards and interpretations approved by the EU, which did not come into force as at the end of the reporting period

The Group plans to adopt the following new Standards and amendments to Standards and Interpretations, which are not yet mandatorily effective until the date of the approval of consolidated financial statements, according to their date of entry into force.

Standards and interpretations approved by EU, which did not come into force for annual periods	Possible impact on the consolidated financial statements	Effective date for periods beginning as the date or after that date
<b>IFRS 15 Revenue from Contracts with Customers</b>	Management does not expect that the new Standard, when initially applied, will have material impact on the Entity's financial statements. The timing and measurement of the Group's revenues are not expected to change under IFRS 15 because of the nature of the Entity's operations and the types of revenues it earns.	1 January 2018
<b>Amendments to IFRS 15 (Revenue from Contracts with Customers)</b>		1 January 2018
<b>IFRS 9 Financial Instruments (2014)</b>	It is expected that the new Standard, when initially applied, will have an impact on the consolidated financial statements. However, the Group is not able to prepare an analysis of the impact that it will have on the consolidated financial statements until the date of initial application.	1 January 2018
<b>Amendments to IFRS 4 (Insurance contract)</b>	No impact	1 January 2018
<b>IFRS 16 Leases</b>	It is expected that the standard change will not have significant impact on the consolidated financial statement of the Group.	1 January 2019

## 2. 2. 2 Standards and interpretations pending for approval by the EU

Standards and interpretations pending for approval by the EU	Possible impact on the consolidated financial statements	Effective date for periods beginning as the date or after that date
<b>Amendments to IFRS 10 and IAS 28 <i>Sale or contribution of assets between an investor and its associate or joint venture</i></b>	No impact	The European Commission decided to defer the endorsement indefinitely.)
<b>Amendments to IFRS 2 <i>Classification and Measurement of Share-based Payment Transactions</i></b>	No significant impact	1 January 2018
<b>Amendments to IFRS 2 (<i>Share-based Payment</i>)</b>	No significant impact	1 January 2018
<b>Annual Improvements to IFRS 2014-2016 Cycle, including:</b> - IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> - IFRS 7 <i>Financial Instruments - Disclosures</i> - IAS 19 <i>Employee Benefits</i> - IFRS 12 <i>Disclosure of Interest in Other Entities</i> - IAS 28 <i>Investments in Associates and Joint Ventures</i>	No significant impact	1 January 2018 <sup>1)</sup>
<b>IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i></b>	No significant impact	1 January 2018
<b>Amendments to IAS 40 (<i>Investment Property</i>)</b>	No impact	1 January 2018
<b>IFRS 17 <i>Insurance Contracts</i></b>	No impact	1 January 2021
<b>IFRIC 23 <i>Uncertainty over Income Tax Treatments</i></b>	No significant impact	1 January 2019
<b>Amendments to IFRS 9 <i>Financial Instruments</i></b>	No significant impact	1 January 2019
<b>Amendments to IAS 28 <i>Investments in Associates and Joint Ventures</i></b>	No significant impact	1 January 2019
<b>Annual Improvements to IFRS 2015-2017 Cycle, including:</b> - IFRS 3 <i>Business Combinations</i> - IFRS 11 <i>Joint Arrangements</i> - IAS 19 <i>Employee Benefits</i>	No significant impact	1 January 2018 <sup>1)</sup>

<sup>1)</sup> Effective for annual periods beginning on or after 1 January 2018 except for the changes to IFRS 12 that shall be applied for annual periods beginning on or after 1 January 2017

## 2. 3 **Basis for preparation of consolidated financial statements**

The consolidated financial statements have been prepared assuming that the Group will continue to operate as a going concern in the foreseeable future and in conviction that there is no evidence indicating that the Group will not be able to continue its operations as a going concern.

The consolidated financial statements have been prepared on the historical cost basis except for the following items:

- derivative hedging instruments which are measured at fair value,
- non-derivative financial instruments at fair value through profit or loss which are measured at fair value,
- available-for-sale financial instruments which are measured at fair value,
- investment properties which are measured at fair value,
- cash settled share based payments which are measured at fair value.

For fair value measurement methods see note 3.

## 2. 4 **Functional and presentation currency and methods applied to translation of financial data**

### 2. 4. 1 **Functional and presentation currency**

These consolidated financial statements are presented in Polish zloty, rounded to the nearest thousand. Polish zloty is the Parent Company's functional currency and the presentation currency of the consolidated financial statements.

### 2. 4. 2 **Methods applied to translation of financial data**

To translate positions of the consolidated statement of financial position denominated in foreign currencies, the following exchange rates were used (in PLN):

#### **Consolidated statement of financial position:**

	31 December 2017	31 December 2016
EUR	4,1709	4,4240
USD	3,4813	4,1793

## 2. 5 **Use of estimates and judgments**

The preparation of consolidated financial statements in conformity with IFRS as approved by EU requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Estimates and assumptions are based on experience and other reasonable factors which provide the basis for the estimate of book value of assets and liabilities and which do not result directly from other sources. Actual results may differ from estimated.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period, in which the estimates are revised and in any future periods affected. Significant estimates are based on valuation performed by independent experts.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements, is included in note 12 "Investment property".

### **3. Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements by all the Group entities.

#### **3. 1 Basis of consolidation**

The consolidated financial statements of MLP Group S.A. Capital Group include data of MLP Group S.A and its subsidiaries prepared as at the end of the same reporting period.

In view of the fact that not all entities being part of the Group apply the same accounting principles consistent with the accounting principles applied by the Parent Company, appropriate adjustments to the financial statements of those entities were made to ensure consistency with the accounting principles applied by the Parent Company.

Subsidiaries are controlled by the Parent Company. The Parent Company controls an investee if and only if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date when control commences until the date when the control ceases.

In preparing the consolidated financial statements the financial statements of the Parent Company and its subsidiaries are combined by adding appropriate positions of assets, liabilities, equity, incomes and costs. In order to present the Group's financial information as if it constituted a single unit, book value of the Parent Company's investment in its subsidiaries (the share of Parent Company in subsidiaries) is eliminated. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

#### **3. 2 Foreign currency**

##### *Foreign currency transactions*

Transactions in foreign currencies are translated into the functional currency by applying the spot exchange rate at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated using the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at historical cost or purchase price in foreign currency are translated using the exchange rate at the date of transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

Foreign exchange differences arising from settlements of transactions in foreign currencies and valuation at the end of each reporting date of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

#### **3. 3 Financial instruments**

##### **3. 3. 1 Non-derivative financial instruments**

Non-derivative financial instruments include equity instruments, debt securities, trade and other receivables, cash and cash equivalents, credits and loans and trade and other liabilities.

Non-derivative financial instruments are initially measured at fair value increased by transaction costs – with exception of investments measured at fair value through profit or loss (with exceptions mentioned below).

The Group initially recognizes financial assets on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Standardized transactions are recognized on the day of transaction, i.e. on the day of commitment to buy or sell. The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Cash and cash equivalents comprise cash balances and bank deposits with maturity of up to three months from the end of the reporting period. The balance of cash and cash equivalents presented in the consolidated statements of cash flow comprises the above-mentioned cash and cash equivalents less bank overdrafts that constitute an integral part of the Group's cash management system.

### **3. 3. 2 *Derivative financial instruments, including hedge accounting***

Derivatives are recognized initially at fair value; any directly attributable transaction costs are recognized in profit or loss as they are incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognized in profit or loss.

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income. Profit or loss recognized in other comprehensive income are transferred to financial result in the same period and in the same position where hedged cash flows are presented in financial result. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

The Group uses interest rate swaps in order to avoid fluctuation of interest rate ("cash flows hedge").

On initial designation of the derivative as a hedging instrument, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the amount accumulated in the equity is reclassified to profit or loss.

### **3. 3. 3 *Held-to-maturity financial instruments***

Held-to-maturity financial assets comprise of financial instruments other than derivatives that have defined payments terms and maturity dates and the Group has the positive intent and ability to hold instruments to maturity excluding financial instruments that are classified as financial assets at fair value through profit or loss, available-for-sale financial assets or loans and receivables.

Current assets comprise assets which will be sold within twelve months from the reporting date.

Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses.



### **3. 3. 4 Loans and receivables**

Loans and receivables are financial assets, other than derivative instruments, with fixed or determinable payments that are not quoted in an active market. Such assets are recognized as a result of cash expenditure, delivery of goods or rendering of services for a debtor without intent to classify these receivables as financial assets measured at fair value through profit or loss. They are recognized as current assets except for those with maturities exceeding twelve months from the reporting date.

Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Revaluation takes into account the time and probability of the payment.

### **3. 3. 5 Financial instruments at fair value through profit or loss**

A financial instrument is classified as at fair value through profit or loss if it is designated as held for trading upon initial recognition or will be designated as such subsequent to initial recognition. Financial assets are designated as at fair value through profit or loss if the Group actively manages such investments and makes purchase and sale decisions based on their fair value. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein are recognized in profit or loss.

The fair value of financial instruments not quoted in an active market (e.g. derivative instruments unquoted in the market) is determined by means of individual analysis based on discounted cash flows. The result of valuation is recognized in profit or loss.

### **3. 3. 6 Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the above categories of financial assets. They are recognized as current assets, as long as there is the intent of selling them within 12 months of the reporting date. Subsequent to initial recognition, available-for-sale financial assets are measured at fair value except for equity investments that do not have a quoted market price on an active market and the fair value of which is not reliably measurable.

Gain or loss from the valuation of available-for-sale financial assets is presented as other comprehensive income until the asset is sold or until impaired, at which point the gain or loss previously recognized as other comprehensive income is reclassified to profit or loss.

## **3. 4 Equity**

Equity is recorded in accounting books by type, in accordance with legal regulations and the Parent Company's Articles of Association.

### **3. 4. 1 Share capital**

Share capital is recorded in the amount stipulated in the Articles of Association and registered in the National Court Register. The Capital Group share capital is the share capital of MLP Group S.A.

Preference shares are classified as equity if they are non-redeemable, or are redeemable only at the Parent Company's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity.

Preference shares are classified as a liability if they are redeemable on a specific date or on shareholder's option or if the dividend payments are not discretionary.

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. The repurchased shares are presented as a separate position in equity as a negative value.

#### **3. 4. 2 Other capital reserves**

Other capital reserves are created from distribution of profits generated in previous years. Other capital reserves include also amounts transferred in accordance with applicable regulations.

#### **3. 4. 3 Share premium**

Share premium is created by the surplus of the issuance value in excess of the par value of shares. It is presented as a separate position within equity. Issuance costs of shares and options decrease the premium.

#### **3. 4. 4 Capital reserve from valuation of hedging instruments**

The capital reserve from valuation of hedging instruments comprises the effective portion of the cumulative net change in the fair value of cash flow hedges that meets the criteria of hedge accounting.

#### **3. 4. 5 Reserve capital**

Reserve capital encompasses retained earnings from prior years.

#### **3. 4. 6 Retained earnings**

The current-period result as well as accumulated profit from prior years are recognized as retained earnings.

### **3. 5 Tangible fixed assets**

Tangible fixed assets consist of property, plant and equipment, investments in third party's tangible assets, assets under construction and assets under finance lease (leases in terms of which the Group assumes substantially all of the risks and rewards of ownership, are used for own purposes, and the expected duration of their use exceeds one year).

#### **3. 5. 1 Valuation of tangible fixed assets**

Tangible fixed assets are measured at cost i.e. either at acquisition price or construction cost less accumulated depreciation and any impairment losses. Tangible fixed assets that had been revalued to fair value as at 1 January 2006, the day of the first application of IFRS EU by the Group, are valued based on the deemed cost, which is the fair value at the date of revaluation.

The cost of an item includes the purchase price of an asset and costs directly attributable to the purchase of property, plant and equipment and bringing it into use, including the costs of transportation, loading, unloading and storage. Discounts, rebates and other similar returns decrease the purchase price of property, plant and equipment. The cost of property, plant and equipment and tangible fixed assets under construction includes all costs incurred by the Group during its construction, installation, adjustment and improvement and interest costs of loans taken out to finance the construction of fixed assets which are directly attributable to the construction of fixed assets, until the date of bringing such an asset into use (or until the end of the reporting period date if the asset is not yet available for use). The construction cost also includes, in cases where this is required, the initial estimate of the costs of dismantling and removing items of property, plant and equipment and restoring the original site. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

In the case where a specific item of property, plant and equipment consists of distinct and significant components with different useful lives, they are accounted for as separate fixed assets.

**3. 5. 2 Subsequent expenditures**

Subsequent expenditure relating to cost of exchange of essential components of tangible fixed assets is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance is expensed as incurred.

**3. 5. 3 Depreciation**

Items of property, plant and equipment, or their major components are depreciated on a straight-line basis over the estimated useful life, allowing for the net selling price of an asset (residual value). The basis for calculating depreciation is the purchase price or construction cost less residual value (land is not depreciated), on the basis of the useful life of an asset adopted by the Group and periodically verified. Items of property, plant and equipment are depreciated from the date when they are available for use and are ready for use, until the earlier of the following dates: the day a fixed asset is classified as held for sale, is removed from the consolidated statement of financial position, the residual value of an asset exceeds its the carrying amount or the asset has already been fully depreciated.

The estimated useful lives for items of property, plant and equipment are as follows:

Buildings	10 - 40 years
Machinery	3 - 16 years
Vehicles	5 - 7 years
Furniture and equipment	1 - 5 years

Adequacy of useful lives, depreciation methods and residual values of property, plant and equipment (if not negligible) are verified periodically by the Group.

**3. 6 Intangible assets**

An intangible asset is an identifiable non-monetary asset without physical substance which value has been determined in a reliable manner which will result in the entity deriving economic benefits in the future.

Intangible assets that are acquired by the Group are measured at cost less accumulated amortization and accumulated impairment losses.

Intangible assets are amortized on a straight-line basis over their estimated useful lives, from the date that they are available for use. Intangible assets are amortized to the earlier of the dates: when the asset is classified as available for sale, is removed from the consolidated financial statements, when its residual value is higher than the book value or when it is completely amortized.

**3. 7 Investment property**

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at purchase price or construction cost together with costs directly attributable to the acquisition of the investment property on initial recognition and subsequently at fair value with any change therein recognized in consolidated statement of profit or loss.

Investment property is removed from the consolidated statement of financial position in case of disposal or when permanently withdrawn from use, when no future benefits from disposal are expected. Gains or losses arising from these operations are recognized in consolidated statement of profit or loss in the period in which disposal or liquidation took place.

For tax purposes, investment properties are depreciated.

#### *Perpetual usufruct*

The Group recognizes the perpetual usufruct right as a financial lease.

### **3. 8 Investment property under construction**

Investment property under construction is presented as investment property.

Investment property under construction is measured at fair value or at cost. Cost method is possible in two cases:

- it is not possible to determine the fair value of the investment property under construction, however its measurement at fair value after the construction process is expected to be possible,
- when measurement of the investment property at fair value after the construction process is not possible.

Gains or losses arising from fair value measurement are recognized directly in consolidated statement of profit or loss.

### **3. 9 Leased assets - The Group as a lessee**

Leases in terms of which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. On 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. Subsequent to initial recognition, the asset value is decreased by accumulated depreciation and impairment losses.

Lease payments are divided between financial cost and decrease of unpaid balance of financial liabilities balance. Financial expenses are recognized directly in the financial results. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life. In other cases leased assets shall be fully depreciated during their useful life term.

Lease agreements which are not financial leases are treated as operating leases and are not recognized in the Group's consolidated statement of financial position.

### **3. 10 Impairment of assets**

#### **3. 10.1 Financial assets**

A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, that had a negative impact on the estimated future cash flows from that asset that can be estimated reliably.

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 asset's original effective interest rate. Impairment losses on available-for-sale financial assets are established in relation to the current fair value.

All individually significant assets are assessed for impairment. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

Impairment losses are recognized in consolidated statement of profit or loss at the end of each reporting period. If the fair value of an impaired available-for-sale financial assets was recognized in other comprehensive income, cumulated loss recognized previously in other comprehensive income is reclassified from other comprehensive income to profit or loss.

Impairment losses are reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the recognition of an impairment loss. Impairment losses on available-for-sale financial assets are recognized in consolidated statement of profit or loss. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in consolidated statement of profit or loss.

### **3. 10.2 Non-financial assets**

The carrying amounts of the Group's non-financial assets, other than biological assets, investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill, indefinite-lived intangible assets and intangible assets not available for use are tested annually for impairment.

Impairment loss is recognized if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their 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 or CGU. For the purpose of impairment testing of assets that don't generate independent cash flows, value in use is estimated for the smallest identifiable cash generating units to which those assets are allocated.

An impairment loss in respect of goodwill is not reversed. At each reporting date, impairment is assessed if there is any indication of reversal of impairment. For other assets, an impairment loss is reversed (if there are changes in estimates) 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.

### **3. 11 Employee benefits**

#### *Defined benefit plans*

The Group entities employing workers are obliged to collect and pay contributions for pension benefit for employees. According to IAS 19 a defined benefit national plan is a post-employment benefit plan. Therefore, a liability related to each period is recognized on the base of amounts contributed for the year.

### **3. 12 Cash settled share based payment**

Employees are entitled to annual bonuses in form of cash served share based payments.

The Group accounts for those transactions in compliance with IFRS 2. Cash settled share based payments are measured at fair value.

The fair value of the amount payable to employees in respect of share appreciation right, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the period that the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as personnel expenses in profit or loss.

### **3. 13 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. If the effect of the time value of money is material, 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.

### **3. 14 Bank credits and loans**

Initially, bank credits and loans are recognized at acquisition cost corresponding to the fair value of the instrument. In subsequent periods, credit and loans are measured at amortized cost, using the effective interest method, which is determined by including costs associated with obtaining the loan and the premium or discount from settling obligations.

### **3. 15 Revenues**

#### **3. 15. 1 Services**

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed. The outcome of a transaction involving the rendering of services can be estimated reliably when all the following conditions are satisfied: the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Group, the stage of completion of the transaction at the reporting date can be measured reliably, the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### **3. 15. 2 Rental income**

Rental income from investment property is recognized as revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

### **3. 16 Lease payments**

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Conditional payments are recognized as a reduction of minimum lease payments during the remaining lease period, when reduction is confirmed.

### **3. 17 Financial income and financial costs**

Finance income comprises interest income on funds invested by the Group, dividend income, gains on the disposal of available-for-sale financial assets, fair value gains on financial assets at fair value through profit or loss, gains from forex exchange foreign differences, gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and losses from forex exchange differences, losses on disposal of available-for-sale financial assets, dividends on preference shares classified as liabilities, fair value losses on financial assets at fair value through profit or loss, impairment losses recognized on financial assets, losses on hedging instruments that are recognized in profit. Interest cost is recognized as it incurs in profit or loss, using the effective interest method.

### **3. 18 Income Tax**

Current tax calculation is based on current tax year result in accordance with tax laws.

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognized in profit or loss except to the extent that it relates to items recognized in other comprehensive income. Then it is recognized in other comprehensive income.

Current tax is the expected tax payable on the taxable income, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill; temporary differences on the initial recognition of assets or liabilities that affects neither accounting nor taxable profit or loss; temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that they control it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized to the extent it is probable that future taxable income will be available against which the deferred tax asset can be utilized. Deferred tax assets are reduced to the extent that it is probable that taxable income will be insufficient for the temporary differences to be partially or fully realized. Such reductions are adjusted upwards, insofar as obtaining sufficient taxable profits becomes probable.

Income tax on the payment of dividends are recognized at the time of the obligation to pay the dividend.

### **3. 19 Earnings per share**

The Group presents basic and diluted earnings per share for ordinary shares. Basic earnings per share are calculated by dividing the profit or loss attributable to holders of ordinary shares by the weighted average number of ordinary shares in the period. Diluted earnings per share as opposed to the ratio described above include, apart from profit attributable to holders of ordinary shares and the average number of ordinary shares also the convertible bonds and stock options granted to employees.

### **3. 20 Segment reporting**

An operating segment is a separate part of the Group which is engaged in providing certain products or services (business segment), or providing products or services within a particular economic environment (geographical segment), which is exposed to other risks and derives other benefits than other segments. The primary and sole activity of the MLP Group S.A. Capital Group is the construction and management of logistics space. Revenues of the Group comprise rental income and revaluation of investment property. Group activities are carried out in Poland and Germany.

## **4. Financial risk management**

The Group is exposed to the following risks arising from the financial instruments:

- Credit risk,
- Liquidity risk,
- Market risk.

The note presents information about the Group's exposure to a particular type of risk, objectives, policies and procedures to manage the particular type of risk and the method of capital management adopted by the Group. The required data has been presented further in the consolidated financial statement.

The Management Board has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

### **4. 1 Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Group's receivables from customers, loans granted and cash and cash equivalents.

#### **4. 1. 1 Trade and other receivables**

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Structure of the customers, including the default risk of the industry in which customers operate have less significant influence on credit risk.

In relation to the customers of the Group there are no significant concentrations of credit risk. The Group manages risk in this respect by securing the payment using bank guarantees. In some cases tenants make deposits.

There were only few cases when the Group incurred losses resulting from unpaid receivables.

#### **4. 1. 2 Loans granted**

The Group's credit risk from loans granted relates mainly to receivables from related parties. At the moment there are no indicators that related parties will not be able to repay the loans granted.

### **4. 2 Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities on maturity date.



The Group's approach to managing liquidity is to ensure, that it will have sufficient liquidity to repay its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group aims to maintain the level of its cash and cash equivalents at an amount sufficient to cover expected cash outflows related to business activity. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

#### **4. 3 Market risk**

Market risk is the risk that changes in market prices, such as exchange rates, interest rates and prices of securities will affect the Group's income or the value of its financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing return.

##### **4. 3. 1 Currency risk**

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in foreign currencies (primarily the euro) other than the functional currency of Group's entities.

The Group draws loans denominated in EUR, while construction works are invoiced in PLN. In connection with the above, between the beginning of the use of a credit line until it being completely used the Group is exposed to the risk of appreciation of the value of PLN in relation to EUR. A significant change in the PLN against EUR means that credit lines given by a bank at the beginning of the project may not be sufficient to finance the total cost of construction of logistics park.

The Group uses natural hedging as the main financial and operating cash flows are denominated in these same currency, i.e. the loan is denominated in EUR as well as the lease agreement.

Available cash is maintained by the Group divided into PLN, EUR and USD in proportion which allows achieving an effect of natural hedging.

##### **4. 3. 2 Interest rate risk**

Interest rate risk management primarily aims to make the Group independent from the changing market conditions and to enable precise planning for the level of costs in different periods. Therefore, the effect of hedging activities carried out should be recognized with no impact on the financial result as not having an operating nature.

One method of ensuring precisely the level of interest costs is concluding with bank an agreement to exchange floating rate to fixed rate.

In order to reduce interest rate risk the Group entered into interest rate swap agreements exchanging floating rate for a fixed-based rate. General objective is to protect the interest rate cash flows, thus reference rate EURIBOR 1M and EURIBOR 3M is hedged. For hedging purposes spread on loans shall be excluded. In companies MLP Pruszków I Sp. z o.o., MLP Poznań II Sp. z o.o., MLP Pruszków IV Sp. z o.o., MLP Lublin Sp. z o.o., MLP Pruszków III and MLP Teresin Sp. z o.o. future interest outflows accrue at floating rates and are effectively converted into fixed interest from the payment schedule of the swap agreement. Companies receive from the bank an amount equivalent to the product of the reference rate and the amount of debt equal to the amount which would be paid if floating rate was valid.

The purpose is to hedge cash flows from interest exposed to interest rate risk.

#### **4. 4 Capital management**

Capital corresponds to the equity as presented in the Consolidated Statement of Financial Position.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Board of Directors monitors the return on capital which is defined as operating profit divided by equity, excluding non-buying / redemption of preference shares and non controlling interest. The Board of Directors monitors as well as the level of dividends to ordinary shareholders.

There were no changes in Group's approach to capital management in reporting period.

Neither the Parent Company nor any of its subsidiaries are subject to external capital requirements.

#### **5. Segment reporting**

The primary and sole activity of the MLP Group S.A. Capital Group is the construction and property management of logistics areas. Revenues of the Group comprise rental income and revaluation of investment property.

Group activities are carried out in Poland and since April 2017 also in Germany. Location of assets coincides with the location of customers. Operating segments coincide with geographical segments.

As at 31 December 2017 and for the reporting period ended this day the Group has three geographical segments - Poland, Germany and Romania.

## Information on operating segments

	<i>for the year ended 31 December</i>		2017			2016	
	Poland	Germany	Romania	Consolidation adjustments	Total	Poland	Total
<b>Revenues</b>							
Sales revenues from external customers	96 454	3 857	-	-	100 311	101 033	101 033
Gain on revaluation of investment properties	(6 695)	2 111	13 186	-	8 602	58 304	58 304
<b>Total segment revenues</b>	<b>89 759</b>	<b>5 968</b>	<b>13 186</b>	<b>-</b>	<b>108 913</b>	<b>159 337</b>	<b>159 337</b>
Results on operating segments	38 096	5 102	13 182	-	56 380	104 662	104 662
Result on other operating activities	(1 224)	-	-	-	(1 224)	(2 310)	(2 310)
<b>Profit before tax and financial cost</b>	<b>36 872</b>	<b>5 102</b>	<b>13 182</b>	<b>-</b>	<b>55 156</b>	<b>102 352</b>	<b>102 352</b>
Result on financial activities	1 418	(308)	(341)	302	1 071	(15 253)	(15 253)
<b>Profit before taxation</b>	<b>38 290</b>	<b>4 794</b>	<b>12 841</b>	<b>302</b>	<b>56 227</b>	<b>87 099</b>	<b>87 099</b>
Income tax	(6 528)	(377)	(2 035)	-	(8 940)	(20 684)	(20 684)
<b>Net profit</b>	<b>31 762</b>	<b>4 417</b>	<b>10 806</b>	<b>302</b>	<b>47 287</b>	<b>66 415</b>	<b>66 415</b>

	<i>as at</i>		31 December 2017			31 December 2016	
	Poland	Germany	Romania	Consolidation adjustments	Total	Poland	Total
<b>Assets and liabilities</b>							
Segment assets	1 323 866	31 353	29 474	(26 343)	1 358 350	1 177 981	1 177 981
<b>Total Assets</b>	<b>1 323 866</b>	<b>31 353</b>	<b>29 474</b>	<b>(26 343)</b>	<b>1 358 350</b>	<b>1 177 981</b>	<b>1 177 981</b>
Segment liabilities	611 944	27 015	19 083	(26 343)	631 699	502 255	502 255
Share capital	711 922	4 338	10 391	-	726 651	675 726	675 726
<b>Total equity and liabilities</b>	<b>1 323 866</b>	<b>31 353</b>	<b>29 474</b>	<b>(26 343)</b>	<b>1 358 350</b>	<b>1 177 981</b>	<b>1 177 981</b>
<b>Expenditure on property</b>	<b>146 619</b>	<b>22 914</b>	<b>16 221</b>	<b>-</b>	<b>185 754</b>	<b>65 067</b>	<b>65 067</b>

## 6. Revenues

	<i>for the year ended 31 December</i>	<b>2017</b>	<b>2016</b>
Revenue from rental of properties		75 548	67 262
Services provided for tenants		20 974	16 431
Revenues obtained under a development contract concluded by MLP Bieruń Sp. z o.o. <sup>1)</sup>		3 789	17 340
<b>Total revenues</b>		<b>100 311</b>	<b>101 033</b>

	<i>for the year ended 31 December</i>	<b>2017</b>	<b>2016</b>
Reinvoicing of utilities		18 449	14 713
Revenue from rental of apartments		34	32
Services provided for tenants		1 846	1 686
Services provided for tenants		645	-
<b>Pozostałe przychody</b>		<b>20 974</b>	<b>16 431</b>

<sup>1)</sup> Together with the agreement to sell property forming part of the MLP Bieruń logistics park, MLP Bieruń Sp. z o.o. signed a developer agreement, in which it undertook to complete the construction and commercialization of that park. In performance of the above agreement, MLP Bieruń Sp. z o.o. had 11,340 m<sup>2</sup> of space leased to Auto Partner and executed that investment project. On account of the above, the Group recognized revenues of PLN 3,789 thousand in 2017, calculated based on the progress of work.

## 7. Other operating income

	<i>for the year ended 31 December</i>	<b>2017</b>	<b>2016</b>
Release of bad debt provision		19	10
Obtained compensation for penalties		184	192
Other		55	224
Reversal of provisions		-	850
<b>Other operating income</b>		<b>258</b>	<b>1 276</b>

## 8. Other operating costs

	<i>for the year ended 31 December</i>	<b>2017</b>	<b>2016</b>
Loss due to disposal of non-tangible fixed assets		(83)	(167)
Write-offs of receivables		-	(601)
Court fees		(32)	(260)
Donation costs		-	(13)
Costs of acquiring investment areas		-	(74)
Costs of insurance policies		(141)	(321)
Other		(363)	(915)
Costs of investment expenditures		(269)	-
The costs incurred for gas infrastructure		(594)	-
Costs of repair of technical defects		-	(1 235)
		<b>(1 482)</b>	<b>(3 586)</b>

## 9. Selling and administrative expenses

	<i>for the year ended 31 December</i>	<b>2017</b>	<b>2016</b>
Depreciation and amortization		(262)	(230)
Materials and energy		(14 845)	(12 092)
External services		(19 674)	(26 679)
Taxes and charges		(11 190)	(10 261)
Payroll		(4 141)	(2 480)
Social security and other employee benefits		(349)	(333)
Other expenditures by kind		(2 000)	(2 600)
Cost of goods for resale and materials sold		(72)	-
<b>Total selling and administrative expenses</b>		<b>(52 533)</b>	<b>(54 675)</b>

Selling and administrative expenses for the year ended 31 December 2017 of PLN ths 52 533 were related mostly to costs of the maintenance of revenue-generating investment properties. Costs that are not directly related to those properties are depreciation costs of tangible fixed assets used for operating activity and not generating lease revenue and property tax on undeveloped land.

External services costs also included costs of PLN 2,824 thousand related to the investment resulting from the development contract signed in September 2015, between MLP Bieruń Sp. z o.o. and WestInvest Gesellschaft für Investmentfonds mbH.

## 10. Financial income and costs

	<i>for the year ended 31 December</i>	<b>2017</b>	<b>2016</b>
Interest on loans granted		1 198	1 909
Interest results on cash flow hedges (CAP)		14	-
Interest results on cash flow hedges (CAP)		18	-
Interest income on bank deposits		117	596
Foreign exchange differences net		15 302	-
Interest on receivables		13	15
IRS transaction settlement		-	2 306
<b>Total financial income</b>		<b>16 662</b>	<b>4 826</b>

	<i>for the year ended 31 December</i>	<b>2017</b>	<b>2016</b>
Interest expenses on credits and loans		(7 416)	(6 419)
Other interest		(6)	(15)
Interest paid on SWAP		(6 913)	(7 616)
Interest results on cash flow hedges		1 602	1 554
Interest results on cash flow hedges		(597)	(684)
Foreign exchange differences net		-	(6 199)
Interest expenses on bonds		(1 681)	-
Other financial expenses		(89)	(37)
Debt management costs		(491)	(663)
<b>Total financial costs</b>		<b>(15 591)</b>	<b>(20 079)</b>

On 13 January 2017 MLP Pruszków I Sp. z o.o. entered into agreement with Raiffeisen Bank Polska S.A. which converted variable rate interest to fixed. Due to the agreement concluded, future loan interest payments accrued at variable rates will be effectively converted into the interest according to the schedules of the conversions agreements.

On 29 September 2017, MLP Pruszków IV Sp.z o.o. has entered into an agreement with mBank S.A which converted variable interest rate to fixed. According to the agreement, future interest payments on interest-bearing loans accrued at variable rates will be effectively converted into interest on the basis of the conversion schedule.

On 6 November 2017, MLP Lublin Sp.z o.o. has entered into an agreement with Powszechna Kasa Oszczędności Bank Polski S.A. which converted variable interest rate to fixed. According to the agreement, future interest payments on interest-bearing loans accrued at variable rates will be effectively converted into interest on the basis of the conversion schedule.

On 29 December 2017, MLP Teresin Sp.z o.o. has entered into an agreement with Bank Polska Kasa Opieki S.A. which converted variable interest rate to fixed. According to the agreement, future interest payments on interest-bearing loans accrued at variable rates will be effectively converted into interest on the basis of the conversion schedule.

In the year ended 31 December 2017 the Group recognized the cost of swap transaction as financial expenses i.e. ineffective part of swap valuation and interest resulting from this valuation.

Foreign exchange differences are mainly a result of credits and loans valuation, which are denominated in EUR and USD at the end of reporting period. Between 31 December 2016 and 31 Decemver 2017 polish currency appreciated by PLN 0.25 which corresponds to 5,7% growth. PLN appreciation in comparison to EUR resulted in recognition of foreign exchange gains of PLN 26.484 thousand, which influenced the presented financial result. In addition, as a result of refinancing MLP Pruszków I Sp. z o.o. bank loan foreign exchange losses of PLN 11,182 thousand were realized. Net foreign exchange differences, realized in financial income amount to PLN 15.302 thousand.

## 11. Income tax

	<i>for the year ended 31 December</i>	<b>2017</b>	<b>2016</b>
Current income tax for the period		3 709	2 870
Origination/ reversal of temporary differences		5 231	17 814
<b>Income tax</b>		<b>8 940</b>	<b>20 684</b>

### Effective tax rate

	<i>for the year ended 31 December</i>	<b>2017</b>	<b>2016</b>
<b>Profit before taxation</b>		<b>56 227</b>	<b>87 099</b>
<i>Current income tax on the basis of the enacted tax rate (19%)</i>		<i>(10 683)</i>	<i>(16 549)</i>
Non-taxable income		203	-
Difference resulting from the different tax rate in MLP Logistic Park Germany I Sp. z o.o. Co.&KG and MLP Bucharest West SRL		945	-
Unrecognized deferred tax asset created on the tax loss		-	(3 702)
Utilisation of previously unrecognized deferred tax assets		595	-
Non-tax deductible costs		-	(433)
<b>Income tax</b>		<b>(8 940)</b>	<b>(20 684)</b>

The law regulations concerning the tax on goods and services tax, income tax, physical, or social security contributions are constantly changed, and as a result there is often no reference to established regulations or legal precedents. The current regulations also contain uncertainties, resulting in differences in opinions as to legal interpretation of tax regulations both between government bodies and between companies and government bodies. Tax settlements and other (eg excise tax or foreign exchange tax) may be subject to control from bodies that are entitled to impose significant penalties, and if such penalty is established as a result of the additional amount must be paid with interest. These factors cause the tax risk in Poland being higher than in countries with more developed tax systems.

Tax settlements may be subject to an audit for the period of five years after the end of the following tax year. As a result, the amounts presented in the financial statements may change at a later date, after they are finally determined by tax authorities.

## 12. Investment property

	<i>as at 31 December</i>	<b>2017</b>	<b>2016</b>
<b>Gross value at the beginning of the period</b>		<b>968 524</b>	<b>845 153</b>
Additions		185 754	65 067
Change in the fair value		8 602	58 304
<b>Gross value at the end of the period</b>		<b>1 162 880</b>	<b>968 524</b>

Investment property includes warehouses and undeveloped land. The Group's revenues relate mainly to rental of warehouses.

Between 31 December 2016 and 31 December 2017, the value of the investment properties rose by EUR 59,630 thousand to reach EUR 277,329 thousand at the end of December 2017. The largest impact on this change was exerted by the acquisition of a 12.5 ha land property in Germany making up the MLP Unna park, purchase of an 18.8 ha property in Romania, completion of projects and delivery of 85 thousand m<sup>2</sup> of new space to tenants in 2017, and launch of a new investment project in the MLP Gliwice park. This increase was partially offset by the appreciation of the Polish currency by PLN 0.25 (5.7%), which affected the value of the investment properties when translated from EUR to PLN. The appreciation of the Polish currency against EUR contributed to an adverse change in the fair value in the amount of PLN 55,094 thousand, which in turn affected the value of properties as at 31 December 2017.

### Investment property divided into Parks:

	<i>as at 31 December</i>	<b>2017</b>	<b>2016</b>
<b>Park MLP Pruszków I</b>			
Fair value of property - MLP Pruszków I		336 405	354 848
Perpetual usufruct - MLP Pruszków I		2 640	2 641
		<b>339 045</b>	<b>357 489</b>
<b>Park MLP Pruszków II</b>			
Fair value of property - MLP Pruszków II		351 402	325 191
Perpetual usufruct - MLP Pruszków II		2 630	2 618
		<b>354 032</b>	<b>327 809</b>
<b>Park MLP Poznań</b>			
Fair value of property - MLP Poznań		118 091	110 436
		<b>118 091</b>	<b>110 436</b>
<b>Park MLP Lublin</b>			
Fair value of property - MLP Lublin		73 812	58 485
		<b>73 812</b>	<b>58 485</b>
<b>Park MLP Teresin</b>			
Fair value of property - MLP Teresin		57 684	37 073
		<b>57 684</b>	<b>37 073</b>
<b>Park MLP Gliwice</b>			
Fair value of property - MLP Gliwice		76 161	17 873
		<b>76 161</b>	<b>17 873</b>
<b>Park MLP Wrocław</b>			
Fair value of property - MLP Wrocław		58 780	35 304
		<b>58 780</b>	<b>35 304</b>



	<i>as at 31 December</i>	<b>2017</b>	<b>2016</b>
<b>Park MLP Czeladź</b>			
Fair value of property - MLP Czeladź		29 947	23 890
		<b>29 947</b>	<b>23 890</b>
<b>Park MLP Unna<sup>1)</sup></b>			
Fair value of property - MLP Unna		25 025	-
		<b>25 025</b>	<b>-</b>
<b>Park MLP Bucharest West<sup>2)</sup></b>			
Fair value of property - MLP Bucharest West		29 407	-
		<b>29 407</b>	<b>-</b>
New investment property additions		<b>733</b>	<b>98</b>
<b>MLP Energy - apartments</b>		<b>163</b>	<b>67</b>
<b>Gross value at the end of the period</b>		<b>1 162 880</b>	<b>968 524</b>

<sup>1)</sup> On 4 April 2017, the Group purchased (through its subsidiary - MLP Logistic Park Germany 1 Sp. z o.o. & Co.KG seated in Dortmund) a property located in Unna, Germany, with an area of 12.58 hectares.

<sup>2)</sup> On 19 October 2017, MLP Bucharest West SRL, a subsidiary of the Company, entered into an agreement to acquire a property located in Rudeni Village, Chitila Town, Ilfov County in Romania (Romanian name: Sat Rudeni, Oras Chitila, Judet Ilfov) total area of 18,8 hectares.

Information regarding collateral on investment property is disclosed in note 26.

In accordance with the adopted accounting policy interest expense on investment loans attributable to the construction in progress are capitalized and increase the cost of the property.

## **12. 1 The Fair value of the Group's investment property**

The fair value of investment property is based on reports of independent and qualified experts, who possess renowned professional qualifications, as well as, expertise in property valuation (based on inputs that are unobservable - level 3).

Property valuations have been prepared in accordance with Standards of Professional Appraisals Royal Institution of Chartered Surveyors (RICS). They are in accordance with International Valuation Standards (IVS) published by the International Valuation Standards Committee (IVSC).

Valuations were prepared based on the income approach method for the existing warehouses and for land with building permission and comparable method for undeveloped lands.

Because of different localizations and characteristics of investment properties, assumptions used by experts concerning yield rates are in the range 6,75%-8,5%.

The Group performs valuation twice during the year: on 30 June and 31 December. Fair value of surplus land in valuation reports established on the basis of comparable approach is presented in polish złoty. Fair value in valuation reports presented in EUR is recalculated to PLN based on average exchange rate published by the National Bank of Poland (NBP) on the last day of the reporting period.

There was no change in the method of valuation in comparison with previous periods.

In the year ended 31 December 2017, there were no reclassifications between the levels.

### Information on fair value valuation using significant unobservable inputs (Level 3)

	Fair value as at 31 December 2017	Approach to the valuation	Unobservable data	Range of unobservable data (probabilities weighted average)	Relations between the unobservable inputs on the data and the fair value
<b>MLP Pruszków I Logistics Park</b>					
(i) warehouse and office buildings	EUR 80 655 thousand	Income approach	Monthly rent per 1 sqm  Capitalization rate	2,52 - 7,29 EUR/m <sup>2</sup> (3,25 EUR/m <sup>2</sup> )  7,50% - 8,50% (8,00%)	The higher rent, the higher fair value  The lower capitalization rate, the higher fair value
<b>EUR 80 655 thousand</b>					
<b>MLP Pruszków II Logistics Park</b>					
(i) warehouse and office buildings	EUR 55 798 thousand	Income approach	Monthly rent per 1 sqm  Capitalization rate	2,28 - 3,99 EUR/m <sup>2</sup> (3,13 EUR/m <sup>2</sup> )  6,75% - 8,51% (7,44%)	The higher rent, the higher fair value  The lower capitalization rate, the higher fair value
(ii) chimney	EUR 4 351 thousand	Income approach	Monthly rent  Capitalization rate	EUR 31,45 thousand  (8,50%)	The higher rent, the higher fair value  The lower capitalization rate, the higher fair value
(iii) parking	EUR 1 132 thousand	Income approach	Monthly rent  Capitalization rate	7,9 thousand EUR- 10,4 thousand EUR (9,17 thousand EUR)  (8,50%)	The higher rent, the higher fair value  The lower capitalization rate, the higher fair value
(iv) surplus land	EUR 14 230 thousand (PLN 59 344 thousand)	Comparable approach	Price for 1 sqm	44,83 EUR/m <sup>2</sup> (187,00 PLN/m <sup>2</sup> )	The higher price for 1 sqm, the higher fair value
(v) warehouse and office buildings under construction	EUR 8 740 thousand	Residual approach	Capitalized net income  Construction costs	(a)  (b)	The lower capitalized net income, the lower fair value  The higher estimate construction costs, the lower fair value
<b>EUR 84 251 thousand</b>					

	Fair value as at 31 December 2017	Approach to the valuation	Unobservable data	Range of unobservable data (probabilities weighted average)	Relations between the unobservable inputs on the data and the fair value
<b>MLP Poznań Logistics Park</b>					
(i) warehouse and office buildings	EUR 22 573 thousand	Income approach	Monthly rent per 1 sqm	2,81 - 4,66 EUR/m <sup>2</sup> (3,74 EUR/m <sup>2</sup> )	The higher rent, the higher fair value
			Capitalization rate	7,00% - 7,26% (7,13%)	The lower capitalization rate, the higher fair value
(ii) surplus land	EUR 1 830 thousand (PLN 7 630 thousand)	Comparable approach	Price for 1 sqm	35,57 EUR/m <sup>2</sup> (150,00 PLN/m <sup>2</sup> )	The higher price for 1 sqm, the higher fair value
(iii) warehouse and office buildings under construction	EUR 3 910 thousand	Residual approach	Capitalized net income	(a)	The lower capitalized net income, the lower fair value
			Construction costs	(b)	The higher estimate construction costs, the lower fair value
<b>EUR 28 313 thousand</b>					
<b>MLP Lublin Logistics Park</b>					
(i) warehouse and office buildings	EUR 15 577 thousand	Income approach	Monthly rent per 1 sqm	3,07 - 3,66 EUR/m <sup>2</sup> (3,37 EUR/m <sup>2</sup> )	The higher rent, the higher fair value
			Capitalization rate	7,51% - 7,52% (7,52%)	The lower capitalization rate, the higher fair value
(ii) warehouse and office buildings under construction	EUR 2 120 thousand	Residual approach	Capitalized net income	(a)	The lower capitalized net income, the lower fair value
			Construction costs	(b)	The higher estimate construction costs, the lower fair value
<b>EUR 17 697 thousand</b>					

	Fair value as at 31 December 2017	Approach to the valuation	Unobservable data	Range of unobservable data (probabilities weighted average)	Relations between the unobservable inputs on the data and the fair value
<b>MLP Teresin Logistics Park</b>					
(i) warehouse and office buildings	EUR 13 830 thousand	Income approach	Monthly rent per 1 sqm	(2,20 EUR/m <sup>2</sup> )	The higher rent, the higher fair value
			Capitalization rate	(7,00%)	The lower capitalization rate, the higher fair value
<b>EUR 13 830 thousand</b>					
<b>MLP Gliwice Logistics Park</b>					
(i) warehouse and office buildings under construction	EUR 13 320 thousand	Income approach	Monthly rent per 1 sqm	(3,83 EUR/m <sup>2</sup> )	The higher rent, the higher fair value
			Capitalization rate	(6,75%)	The lower capitalization rate, the higher fair value
(ii) warehouse and office buildings under construction	EUR 4 940 thousand	Residual approach	Capitalized net income	(a)	The lower capitalized net income, the lower fair value
			Construction costs	(b)	The higher estimate construction costs, the lower fair value
<b>EUR 18 260 thousand</b>					
<b>MLP Wrocław Logistics Park</b>					
(i) warehouse and office buildings under construction	EUR 5 383 thousand	Income approach	Monthly rent per 1 sqm	(4,28 EUR/m <sup>2</sup> )	The higher rent, the higher fair value
			Capitalization rate	(6,75%)	The lower capitalization rate, the higher fair value
(ii) warehouse and office buildings under construction	EUR 8 710 thousand	Residual approach	Capitalized net income	(a)	The lower capitalized net income, the lower fair value
			Construction costs	(b)	The higher estimate construction costs, the lower fair value
<b>EUR 14 093 thousand</b>					

	Fair value as at 31 December 2017	Approach to the valuation	Unobservable data	Range of unobservable data (probabilities weighted average)	Relations between the unobservable inputs on the data and the fair value
<b>MLP Czeladź Logistics Park</b>					
(i) warehouse and office buildings under construction	EUR 7 180 thousand	Residual approach	Capitalized net income	(a)	The lower capitalized net income, the lower fair value
			Construction costs	(b)	The higher estimate construction costs, the lower fair value
<b>EUR 7 180 thousand</b>					
<b>MLP Unna Logistics Park</b>					
(i) warehouse and office buildings under construction	EUR 6 000 thousand	Residual approach	Capitalized net income	(a)	The lower capitalized net income, the lower fair value
			Construction costs	(b)	The higher estimate construction costs, the lower fair value
<b>EUR 6 000 thousand</b>					
<b>MLP Bucharest West Logistics Park</b>					
(i) surplus land	EUR 5 600 thousand	Comparable approach	Price for 1 sqm	30,00 EUR/m <sup>2</sup>	The higher price for 1 sqm, the higher fair value
(ii) electricity Installations	EUR 1 450 thousand	Historical cost approach			
<b>EUR 7 050 thousand</b>					
<b>EUR 277 329 thousand</b>					

(a) Capitalized net market income: calculation based on the market rents and capitalization rates

(b) Estimated construction costs: the construction costs of the project based on estimated construction costs

### Information on fair value valuation using significant unobservable inputs (Level 3)

	Fair value as at 31 December 2016	Approach to the valuation	Unobservable data	Range of unobservable data (probabilities weighted average)	Relations between the unobservable inputs on the data and the fair value
<b>MLP Pruszków I Logistics Park</b>					
(i) warehouse and office buildings	EUR 80.210 thousand	Income approach	Monthly rent per 1 sqm	2,74-7,9 EUR/m <sup>2</sup> , (5,32 EUR/m <sup>2</sup> )	The higher rent, the higher fair value
			Capitalization rate	7,50%-8,50%, (8,00%)	The lower capitalization rate, the higher fair value
<b>EUR 80.210 thousand</b>					
<b>MLP Pruszków II Logistics Park</b>					
(i) warehouse and office buildings	EUR 39.060 thousand	Income approach	Monthly rent per 1 sqm	2,28-3,69 EUR/m <sup>2</sup> , (3,04 EUR/m <sup>2</sup> )	The higher rent, the higher fair value
			Capitalization rate	6,75%-8,50%, (7,22%)	The lower capitalization rate, the higher fair value
(ii) chimney	EUR 5.124 thousand	Income approach	Monthly rent	37,0 thousand EUR- 37,1 thousand EUR (37,0 thousand EUR)	The higher rent, the higher fair value
			Capitalization rate	8,50%	The lower capitalization rate, the higher fair value
(iii) parking	EUR 1.132 thousand	Income approach	Monthly rent	7,9 thousand EUR- 10,4 thousand EUR (9,2 thousand EUR)	The higher rent, the higher fair value
			Capitalization rate	8,50%	The lower capitalization rate, the higher fair value
(iv) surplus land	EUR 16.520 thousand (PLN 73.087 thousand)	Comparable approach	Price for 1 sqm	42,27 EUR/m <sup>2</sup> (187,00 PLN/m <sup>2</sup> )	The higher price for 1 sqm, the higher fair value
(v) warehouse and office buildings under construction	EUR 11.670 thousand	Residual approach	Capitalized net income	(a)	The lower capitalized net income, the lower fair value
			Construction costs	(b)	The higher estimate construction costs, the lower fair value
<b>EUR 73.506 thousand</b>					

	Fair value as at 31 December 2016	Approach to the valuation	Unobservable data	Range of unobservable data (probabilities weighted average)	Relations between the unobservable inputs on the data and the fair value
<b>MLP Poznań Logistics Park</b>					
(i) warehouse and office buildings	EUR 18.833 thousand	Income approach	Monthly rent per 1 sqm	2,81-4,7 EUR/m <sup>2</sup> , (4,00 EUR/m <sup>2</sup> )	The higher rent, the higher fair value
			Capitalization rate	6,75%-7,26%, (7,1%)	The lower capitalization rate, the higher fair value
(ii) surplus land	EUR 1.720 thousand (PLN 7.630 thousand)	Comparable approach	Price for 1 sqm	33,91 EUR/m <sup>2</sup> (149,98 PLN/m <sup>2</sup> )	The higher price for 1 sqm, the higher fair value
(iii) warehouse and office buildings under construction	EUR 4.410 thousand	Residual approach	Capitalized net income	(a)	The lower capitalized net income, the lower fair value
			Construction costs	(b)	The higher construction costs, the lower fair value
<b>EUR 24.963 thousand</b>					
<b>MLP Lublin Logistics Park</b>					
(i) warehouse and office buildings	EUR 8.800 thousand	Income approach	Monthly rent per 1 sqm	3,1-3,7 EUR/m <sup>2</sup> , (3,4 EUR/m <sup>2</sup> )	The higher rent, the higher fair value
			Capitalization rate	(7,51%)	The lower capitalization rate, the higher fair value
(ii) warehouse and office buildings under construction	EUR 4.420 thousand	Residual approach	Capitalized net income	(a)	The lower capitalized net income, the lower fair value
			Construction costs	(b)	The higher construction costs, the lower fair value
<b>EUR 13.220 thousand</b>					

	Fair value as at 31 December 2016	Approach to the valuation	Unobservable data	Range of unobservable data (probabilities weighted average)	Relations between the unobservable inputs on the data and the fair value
<b>MLP Teresin Logistics Park</b>					
(i) warehouse and office buildings	EUR 6.130 thousand	Income approach	Monthly rent per 1 sqm	2,05-8,57 EUR/m <sup>2</sup> , (5,31 EUR/m <sup>2</sup> )	The higher rent, the higher fair value
			Capitalization rate	7,00%	The lower capitalization rate, the higher fair value
(ii) warehouse and office buildings under construction	EUR 2.250 thousand	Residual approach	Capitalized net income	(a)	The lower capitalized net income, the lower fair value
			Construction costs	(b)	The higher construction costs, the lower fair value
<b>EUR 8.380 thousand</b>					
<b>MLP Gliwice Logistics Park</b>					
(i) surplus land	EUR 4.040 thousand (PLN 17.892 thousand)	Comparable approach	Price for 1 sqm	27,12 EUR/m <sup>2</sup> (120,00 PLN/m <sup>2</sup> )	The higher price for 1 sqm, the higher fair value
<b>EUR 4.040 thousand</b>					
<b>MLP Wrocław Logistics Park</b>					
(i) warehouse and office buildings under construction	EUR 7.980 thousand	Residual approach	Capitalized net income	(a)	The lower capitalized net income, the lower fair value
			Construction costs	(b)	The higher construction costs, the lower fair value
<b>EUR 7.980 thousand</b>					
<b>MLP Czeladź Logistics Park</b>					
(i) surplus land	EUR 5.400 thousand (PLN 23.890 thousand)	Comparable approach	Price for 1 sqm	32,78 EUR/m <sup>2</sup> (144,99 PLN/m <sup>2</sup> )	The higher price for 1 sqm, the higher fair value
<b>EUR 5.400 thousand</b>					
<b>EUR 217.699 thousand</b>					

(a) Capitalized net market income: calculation based on the market rents and capitalization rates

(b) Estimated construction costs: the construction costs of the project based on estimated construction costs



### 13. Deferred tax

	Deferred tax assets		Deferred tax liabilities		Net value	
	31 December	31 grudnia	31 December	31 grudnia	31 December	31 grudnia
	<i>as at</i>	2017	2016	2017	2017	2016
Investment property	-	-	99 307	95 689	99 307	95 689
Credits, loans granted and received	-	3 467	1 748	-	1 748	(3 467)
Derivatives	433	1 602	-	-	(433)	(1 602)
Other	-	-	99	990	99	990
Tax losses deductible in the future periods	7 846	5 013	-	-	(7 846)	(5 013)
Interest on bonds	67	-	-	-	(67)	-
<b>Deferred tax assets / liabilities</b>	<b>8 346</b>	<b>10 082</b>	<b>101 154</b>	<b>96 679</b>	<b>92 808</b>	<b>86 597</b>

	<i>as at</i>	31 December	31 grudnia
		2017	2016
<b>Including:</b>			
Deferred tax assets		(7 445)	(7 181)
Deferred tax liabilities		100 253	93 778
		<b>92 808</b>	<b>86 597</b>

Unrecognised deferred tax assets on tax losses as at 31 December 2017 amounted to PLN 4 202 thousand.

Based on the tax budgets prepared by the Group, the Management Board considered it justified to recognize a deferred tax asset from a tax loss.

	1 January 2016	changes recorded in profit or loss	changes recorded in other comprehensive income	31 December 2016
Investment property	82 058	13 631	-	95 689
Credits, loans granted and received	(1 919)	(1 548)	-	(3 467)
Derivatives	(2 612)	165	845	(1 602)
Other	(900)	1 890	-	990
Tax losses deductible in future periods	(8 689)	3 676	-	(5 013)
	<b>67 938</b>	<b>17 814</b>	<b>845</b>	<b>86 597</b>

	1 January 2017	changes recorded in profit or loss	changes recorded in other comprehensive income	31 December 2017
Investment property	95 689	3 618	-	99 307
Credits, loans granted and received	(3 467)	5 215	-	1 748
Derivatives	(1 602)	189	980	(433)
Other	990	(891)	-	99
Tax losses deductible in future periods	(5 013)	(2 833)	-	(7 846)
Interest on bonds	-	(67)	-	(67)
	<b>86 597</b>	<b>5 231</b>	<b>980</b>	<b>92 808</b>

#### 14. Other investments

	<i>as at 31 December</i>	<b>2017</b>	<b>2016</b>
Other long-term financial assets		12 742	8 567
Long-term loans granted to related parties		55 852	57 397
<b>Other long-term investments</b>		<b>68 594</b>	<b>65 964</b>
Short-term loans granted to related parties		-	745
Short-term loans granted to third parties		22 139	22 139
<b>Short-term investments</b>		<b>22 139</b>	<b>22 884</b>
Escrow account		418	739
Restricted cash		2 716	6 245
<b>Other short-term investments</b>		<b>3 134</b>	<b>6 984</b>

Other non-current investments include the long-term part of restricted cash in the amount of PLN 12,742 thousand. This amount includes: PLN 7,630 thousand of cash was kept separate under loan agreements in order to secure payments of principal and interest installments, PLN 379 thousand of a bank deposit established using a security deposit retained from a tenant as well as other retained security deposits in the amount of PLN 4,719 thousand as well as the valuation of CAP in the amount of PLN 14 thousand.

The Group has short-term restricted cash of PLN 2 716 thousand. Restricted cash consists of PLN 605 thousand, of short-term deposits and short-term part of cash separated in accordance with credit agreements of PLN 2 111 thousand.

Other short-term investments also comprise funds on Escrow account, retained in connection with the sale of investment properties. These funds will be released when the Group's obligations under the contract for sale of investment properties are met. The Group expects that these obligations will be fulfilled within 12 months after the end of the reporting period.

#### 15. Trade and other receivables

	<i>as at 31 December</i>	<b>2017</b>	<b>2016</b>
Trade receivables		11 017	6 850
Investment settlements		189	504
Prepayments		1 141	758
Receivables from settlement of IRS transaction		-	2 306
Accrued income from the development contract concluded by MLP Bieruń Sp. z o.o.		25	17 523
Other receivables		5 214	-
Taxation and social security receivables		8 340	14 540
<b>Trade and other receivables</b>		<b>25 926</b>	<b>42 481</b>
Corporate income tax receivables		1 125	971
<b>Short-term receivables</b>		<b>27 051</b>	<b>43 452</b>

Receivables due from related parties are set out in note 27.

The aging of trade and other receivables, as well as the amount of allowances are presented in the below table.

	<i>as at 31 December</i>		<b>31 December 2017</b>		<b>31 December 2016</b>	
			<b>Gross receivables</b>	<b>Allowance</b>	<b>Gross receivables</b>	<b>Allowance</b>
Not past due:			3 965	-	3 331	-
Past due:						
1 to 90 days			6 097	-	2 970	-
91 to 180 days			322	-	207	(1)
over 180 days			5 185	(4 552)	4 909	(4 566)
<b>Total receivables</b>			<b>15 569</b>	<b>(4 552)</b>	<b>11 417</b>	<b>(4 567)</b>

## 16. Cash and cash equivalents

	<i>as at 31 December</i>	
	<b>2017</b>	<b>2016</b>
Cash on hand	64	61
Cash in bank	59 069	20 153
Short-term deposits	5 694	41 480
<b>Cash and cash equivalents in the Consolidated statement of financial position</b>	<b>64 827</b>	<b>61 694</b>
<b>Cash and cash equivalents in the Consolidated statement of cash flows</b>	<b>64 827</b>	<b>61 694</b>

Cash in bank bears interest at variable interest rates, the amount of which depends on the interest rate of overnight bank deposits. Short-term deposits are concluded for varying periods, depending on the current Group demand for cash and earn interest at individually set interest rates.

Cash and cash equivalents in the consolidated statement of financial position include cash on hand and bank deposits with maturity up to 3 months from the end of the reporting date.

## 17. Explanatory information to consolidated statement of cash flows

### 17. 1 Cash flow related to loans granted and received

	<i>for the year ended 31 December</i>	
	<b>2017</b>	<b>2016</b>
Cash flows from bank credits received	85 596	48 205
<b>Total cash flows from bank credits and loans received</b>	<b>85 596</b>	<b>48 205</b>
<b>Total cash flows from bank credit and loans received presented in the Consolidated statement of cash flows</b>	<b>85 596</b>	<b>48 205</b>

<i>for the year ended 31 December</i>	<b>2017</b>	<b>2016</b>
Cash flows from bank credits repaid	(17 582)	(18 006)
Cash flows from loans repaid	(4 989)	(25 233)
<b>Total cash flows from bank credits and loans repaid</b>	<b>(22 571)</b>	<b>(43 239)</b>
Elimination of loans repaid to Fenix Polska Sp. z o.o.	1 839	22 394
<b>Total cash flows from bank credit and loans repaid</b>	<b>(20 732)</b>	<b>(20 845)</b>
<b>Total cash flows from bank credit and loans repaid presented in the Consolidated statement of cash flows</b>	<b>(20 732)</b>	<b>(20 845)</b>

<i>for the year ended 31 December</i>	<b>2017</b>	<b>2016</b>
Cash flows from repayment of loans granted	2 143	22 401
Elimination of repaid loans granted from Fenix Polska Sp. z o.o.	(1 839)	(22 394)
<b>Total cash flows from repayment of loans granted</b>	<b>304</b>	<b>7</b>
<b>Total cash flows from repayment of loans granted presented in the consolidated statement of cash flows</b>	<b>304</b>	<b>7</b>

## 17. 2 Changes in trade and other receivables

<i>for the year ended 31 December</i>	<b>2017</b>	<b>2016</b>
Changes in inventories	22	-
Changes in trade and other receivables	16 555	(23 148)
Other adjustments	5 214	(227)
<b>Changes in trade and other receivables</b>	<b>21 791</b>	<b>(23 375)</b>
<b>Changes in trade and other receivables presented in the consolidated statement of cash flows</b>	<b>21 791</b>	<b>(23 375)</b>

### 17. 3 Changes in short-term and other liabilities

	<i>for the year ended 31 December</i>	<b>2017</b>	<b>2016</b>
Change in trade and other liabilities		(6 005)	(7 776)
Changes in payroll liabilities		(78)	288
Changes in investment deposits and guarantees from tenants and others		6 056	5 485
Changes in finance lease liabilities		11	(1)
Exclusion of changes in investment liabilities		(7 898)	(250)
<b>Changes in short-term and other liabilities</b>		<b>(7 914)</b>	<b>(2 254)</b>
<b>Changes in short-term and other liabilities presented in the consolidated statement of cash flows</b>		<b>(7 914)</b>	<b>(2 254)</b>

## 18. Equity

### 18. 1 Share capital

	<i>as at 31 December</i>	<b>2017</b>	<b>2016</b>
<b>Share capital</b>			
Ordinary A series shares		11 440 000	11 440 000
Ordinary B series shares		3 654 379	3 654 379
Ordinary C series shares		3 018 876	3 018 876
		<b>18 113 255</b>	<b>18 113 255</b>
Par value of 1 share		0,25	0,25

As at 31 December 2017 the share capital of the parent company amounted to PLN 4,528,313.75 and was divided into 18,113,255 shares entitling to 18,113,225 votes on the General Meeting. The par value of all shares is PLN 0.25 and was fully paid.

In the year ended 31 December 2017 there were no changes in share capital.

## 19. Earnings per share

Profit per share for each period is calculated by dividing the net profit attributable to shareholders of the Parent Company for the period by the weighted average number of shares during the reporting period.

	<i>for the year ended 31 December</i>	<b>2017</b>	<b>2016</b>
<b>Net result of the financial period</b>		<b>47 287</b>	<b>66 415</b>
Number of shares issued (in units)		18 113 255	18 113 255
Weighted average number of shares issued (in units)		18 113 255	18 113 255
Profit per share attributable to shareholders of the Parent Company during the reporting period (in PLN per share):			
- basic		2,61	3,67
- diluted		2,61	3,67
In presented periods there were no dilutive factors.			

## 20. Credits, loans, other debt instruments and other liabilities

### 20. 1 Long-term liabilities

	<i>as at 31 December</i>	<b>2017</b>	<b>2016</b>
Bank credits pledged on the Group's assets		309 231	265 750
Bonds <sup>1)</sup>		83 418	-
Loans		55 990	61 318
<b>Total long-term credits, loans, other debt instruments and other liabilities</b>		<b>448 639</b>	<b>327 068</b>

	<i>as at 31 December</i>	<b>2017</b>	<b>2016</b>
Finance lease liabilities		5 270	5 259
Liabilities concerning SWAP transactions		2 219	2 229
Investment deposits		8 935	5 739
Guarantees from tenants and others		3 910	1 050
Liabilities concerning other transactions		-	17
<b>Total other long-term liabilities</b>		<b>20 334</b>	<b>14 294</b>

### 20. 2 Short-term liabilities

	<i>as at 31 December</i>	<b>2017</b>	<b>2016</b>
Short-term credits and short-term part of long term credits pledged on the Group's assets		20 516	13 230
Bonds <sup>1)</sup>		355	-
Loans		407	580
<b>Total short-term credits, loans and other debt instruments</b>		<b>21 278</b>	<b>13 810</b>

<sup>1)</sup> On 11 May 2017, as a part of the private offer, the Company issued 20,000 A series bearer bonds, with a nominal value of EUR 1,000 each and a total issue value of EUR 20,000,000.

Bonds are subject to variable interest rate of EURIBOR for six-month EUR bank deposits plus a premium. The bonds have been issued as non-secured bonds. The purpose of the issuance of the Bonds was not specified. The redemption of the Bonds is scheduled for 11 May 2022, with a possibility of an early redemption by the Company. Bonds are in electronic, not physical form.

The bonds were admitted to the securities depository by the National Depository for Securities S.A. on the basis of the Resolution No. 305/17 of the Management Board of the National Depository for Securities S.A. and marked with the code PLMLPGR00033.

According to the resolution No. 720/707 of the Management Board of the Warsaw Stock Exchange dated 4 July 2017, it was decided to introduce 20,000 A series bearer bonds of the MLP Group S.A. in the nominal value of EUR 1,000 each to the alternative trading system - Catalyst. 12 July was the first trading day on the alternative trading system - Catalyst. Bonds will be quoted in the continuous trading system under the abbreviated name of "MLP0522".

Liabilities under secured and unsecured loans on the Group's assets constituted liabilities to related parties and liabilities to unrelated parties.

	<i>as at 31 December</i>	<b>2017</b>	<b>2016</b>
Liabilities concerning SWAP transactions		43	6 196
<b>Other short-term liabilities</b>		<b>43</b>	<b>6 196</b>

### 20. 3 Bond liabilities

Financial instrument	currency	nominal value	maturity date	effective rate (%)	guarantees and security	quotation market
Non-public bonds	EUR	20 000 000	2022-05-11	Euribor 6M + margin	-	Catalyst

### 20. 4 Credits, loans secured and unsecured on the Group's assets

	currency	effective rate (%)	as at maturity date	31 December 2017		as at maturity date	31 December 2016	
				in currency	in PLN		in currency	in PLN
<b>Bank credits pledged on the Group's assets:</b>								
Investment loan mBank S.A.	EUR	EURIBOR 1M +margin	2021	13 163	54 798	2021	11 628	51 309
Investment loan PEKAO S.A.	EUR	EURIBOR 1M +margin	2025	6 856	28 597	2025	3 303	14 614
Construction loan PEKAO S.A.	EUR	EURIBOR 1M +margin	2028	3 543	14 771	-	-	-
Investment loan Raiffeisen Bank Polska S.A.	EUR	EURIBOR 3M +margin	2023	27 399	113 808	2023	29 749	131 578
Investment loan BGŻ BNP Paribas <sup>1)</sup>	EUR	EURIBOR 3M +margin	2022	7 641	31 570	2022	8 097	35 686
Investment loan PKO BP S.A.	EUR	EURIBOR 3M +margin	2030	7 527	31 396	2030	5 075	22 453
Working capital loan (VAT) PKO BP S.A.	PLN	Wibor 1M+margin	2018	-	779	-	-	-
Working capital loan (VAT) ING Bank Śląski S.A.	PLN	Wibor 1M+margin	2018	-	60	-	-	-
Investment loan ING Bank Śląski S.A.	EUR	EURIBOR 1M +margin	2020	5 001	20 837	2020	3 677	16 230
Investment loan ING Bank Śląski S.A.	EUR	EURIBOR 3M +margin	2020	1 642	6 850	2020	1 607	7 110
Construction loan BGŻ BNP Paribas	EUR	EURIBOR 3M +margin	2024	6 301	26 281	-	-	-
<b>Total credits:</b>					<b>329 747</b>			<b>278 980</b>

\* Dane niebadane

<sup>1)</sup> As of 31 December 2016 MLP Pruszków III Sp. z o.o. had an investment credit in the BGŻ BNP Paribas bank of EUR 5.340 thousand, whereas MLP Moszna I Sp. z o.o. had an investment credit in the BGŻ BNP Paribas bank of EUR 2.757 thousand. These companies were merged on 2 March 2017. As a consequence MLP Moszna I Sp. z o.o.'s entire assets were taken over by the MLP Pruszków III Sp. z o.o. As a result of this, credit liabilities of aforementioned companies included in this consolidated financial statements are presented in one line and as at 31 December 2017 amount to PLN 31.570 thousand.



			<i>as at</i>	<b>31 December 2017</b>		<i>as at</i>	<b>31 December 2016</b>	
	<b>currency</b>	<b>effective rate (%)</b>	<b>maturity date</b>	<b>in currency</b>	<b>in PLN</b>	<b>maturity date</b>	<b>in currency</b>	<b>in PLN</b>
<b>Loans unsecured on the Group's assets:</b>								
Fenix Polska S.A.	PLN	WIBOR 3M +margin	2021	-	2 841	2021	-	2 769
Fenix Polska S.A.	PLN	WIBOR 3M +margin	2020	-	8 102	2020	-	7 923
Fenix Polska S.A.	PLN	WIBOR 3M +margin	2027	-	-	2026	-	3 405
Fenix Polska S.A.	PLN	WIBOR 3M +margin	2020	-	12	2024	-	12
Fenix Polska S.A.	PLN	WIBOR 3M +margin	2029	-	253	2029	-	253
Fenix Polska S.A.	PLN	WIBOR 3M +margin	2026	-	1 632	-	-	-
Fenix Polska S.A.	PLN	WIBOR 3M +margin	2021	-	145	2021	-	169
Fenix Polska S.A.	PLN	WIBOR 3M +margin	2030	-	465	2017	-	458
Fenix Polska S.A.	PLN	WIBOR 3M +margin	2020	-	21 320	2020	-	21 064
Fenix Polska S.A.	PLN	WIBOR 3M +margin	2025	-	15	2017	-	15
Fenix Polska S.A.	PLN	WIBOR 3M +margin	2024	-	300	2024	-	301
Fenix Polska S.A.	PLN	WIBOR 3M +margin	2025	-	100	2017	-	100
Fenix Polska S.A.	PLN	EURIBOR 3M +margin	2028	-	7	2017	-	7
Fenix Polska S.A.	EUR	EURIBOR 3M +margin	2029	1 919	8 005	2029	1 896	8 388
Fenix Polska S.A.	EUR	EURIBOR 3M +margin	2020	3 067	12 793	2020	3 030	13 403
Fenix Polska S.A.	USD	Libor R USD+margin	2018	117	407	2018	869	3 631
<b>Total loans:</b>					<b>56 397</b>			<b>61 898</b>
<b>Total credits, loans secured and unsecured on the Group's assets</b>					<b>386 144</b>			<b>340 878</b>

## 21. Payroll liabilities

	<i>as at 31 December</i>	<b>2017</b>	<b>2016</b>
Special funds		157	157
Cash settled share based payment		1 970	2 048
<b>Payroll liabilities</b>		<b>2 127</b>	<b>2 205</b>

According to the resolution of the Supervisory Board of MLP Group S.A. employees are covered by phantom shares program for the period 2014 - 2017.

Each entitled employee is granted a fixed number of phantom shares, that is dependent on achieving the established financial goals by the Group.

Upon approval of the financial statements by the General Meeting of Shareholders, the Supervisory Board will authorize a list of employees, with the number of phantom shares assigned to each employee. Equivalent of phantom shares will be paid in cash.

Phantom shares for the previous financial year were paid in July 2017 of PLN 2.074 thousand.

The value of one phantom share is based on the current share price of MLP Group S.A.

## 22. Trade and other liabilities

	<i>as at 31 December</i>	<b>2017</b>	<b>2016</b>
Trade liabilities		6 824	4 406
Liabilities concerning execution of development agreement		15	13 105
Revenue prepayments		432	361
Taxation and social security liabilities		2 100	1 861
Unbilled trade liabilities		1 986	1 612
Investment liabilities, guarantee deposits and other		26 603	22 620
<b>Trade and other liabilities</b>		<b>37 960</b>	<b>43 965</b>
Income tax liabilities		1 065	939
<b>Short-term liabilities</b>		<b>39 025</b>	<b>44 904</b>

Liabilities to related parties were disclosed in note 27.

The below table shows the aging structure of trade and other liabilities:

	<i>as at 31 December</i>	<b>2017</b>	<b>2016</b>
Current liabilities		44 622	47 178
Liabilities overdue from 1 to 90 days		2 969	714
Liabilities overdue from 91 to 180 days		19	12
Liabilities overdue over 180 days		663	628
<b>Total trade and other liabilities</b>		<b>48 273</b>	<b>48 532</b>

The above aging structure of liabilities also comprises long-term liabilities.

Trade liabilities are not subject to interest and are usually settled within 30 to 60 days. Other payables are non-interest bearing and have an average maturity of one month. The amount stemming from the difference between the liabilities and VAT receivables is paid to the appropriate tax authorities in the periods regulated in tax law. Interest liabilities are usually settled based on approved interest notes.

## 23. Financial instruments

### 23. 1 Valuation of financial instruments

The fair value of financial assets and financial liabilities as at 31 December 2017 and 31 December 2016 is equal to the value presented in the consolidated statement of financial position.

The following assumptions have been adopted for the fair value of financial instruments:

- **cash and cash equivalents:** the carrying amount of these financial instruments corresponds to fair value because of the short maturity,
- **trade receivables, other receivables, trade liabilities and accruals:** the carrying amount is comparable with fair value because of the short-term character of these instruments,
- **loans granted:** the carrying amount corresponds to fair value because of the floating rate which is comparable with market interest rates,
- **bank credits, loans taken and bonds:** the carrying amount of these instruments is comparable with fair value because of the floating rate, based on market rates,
- **Swap valuation liabilities:** fair value determined on the basis of references to instruments quoted in an active market.

#### 23. 1. 1 Financial assets

	<i>as at 31 December</i>	<b>2017</b>	<b>2016</b>
<b>Loans and receivables:</b>			
Cash and cash equivalents		64 827	61 694
Loans and receivables, including:			
● Trade and other receivables		16 445	27 183
● Loans granted		77 991	80 281
● Other long-term investments		12 742	8 567
● Other short-term investments		3 134	6 984
		<b>175 139</b>	<b>184 709</b>
<b>Total financial assets</b>		<b>175 139</b>	<b>184 709</b>

### 23. 1. 2 Financial liabilities

	<i>as at 31 December</i>	<b>2017</b>	<b>2016</b>
<b>Hedging financial instruments:</b>			
Liabilities concerning SWAP transactions		2 262	8 425
Liabilities concerning other transactions		-	17
		<b>2 262</b>	<b>8 442</b>
<b>Liabilities valued at amortized cost:</b>			
Bank credits		329 747	278 980
Loans received		56 397	61 898
Trade and other payables		48 273	48 532
Finance lease liabilities		5 270	5 259
Bonds		83 773	-
		<b>523 460</b>	<b>394 669</b>
<b>Total financial liabilities</b>		<b>525 722</b>	<b>403 111</b>

The fair value of hedging financial instruments as at 31 December 2017 amounted to PLN 2 262 thousand, and is based on inputs other than quoted price that are either directly or indirectly observable (level 2). The information is provided by banks and is based on reference to instruments quoted in an active market.

In the period ended 31 December 2017 there were no reclassifications between the levels.

### 23. 2 Other disclosures relating to financial instruments

#### Established collaterals

Information concerning established collaterals is disclosed in note 26.

#### Hedge accounting

On 13 January 2017 MLP Pruszków I Sp. z o.o. entered into agreement with Raiffeisen Bank Polska S.A. which converted variable rate to a fixed one. Due to the agreement concluded, future loan interest payments, accrued at variable rates will be effectively converted into the interest according to the schedules of the conversions agreements.

On 29 September 2017, MLP Pruszków IV Sp. z o.o. has entered into agreement with Raiffeisen Bank Polska S.A. which converted variable rate to a fixed one. Due to the agreement concluded, future loan interest payments, accrued at variable rates will be effectively converted into the interest according to the schedules of the conversions agreements.

On 6 November 2017, MLP Lublin Sp.z o.o. has entered into an agreement with Powszechna Kasa Oszczędności Bank Polski S.A. which converted variable interest rate to fixed. According to the agreement, future interest payments on interest-bearing loans accrued at variable rates will be effectively converted into interest on the basis of the conversion schedule.

On 29 December 2017, MLP Teresin Sp.z o.o. has entered into an agreement with Bank Polska Kasa Opieki S.A. which converted variable interest rate to fixed. According to the agreement, future interest payments on interest-bearing loans accrued at variable rates will be effectively converted into interest on the basis of the conversion schedule.

Cash flows are expected every month until 31 December 2023.

### Identification of the hedging instrument and the hedged position

Entity	Hedged position - debt as at 31 December 2017 in the amount of*:		Hedging instrument - amortized Interest Rate Swap of initial value of:		The fair value of the hedging instrument (in EUR thousand) as at 31 December		The fair value of the hedging instrument (in PLN thousand) as at 31 December	
	in EUR thousand	in PLN thousand	in EUR thousand	in PLN thousand	2017	2016	2017	2016
MLP Pruszków I Sp. z o.o.	27 399	114 278	25 560	106 608	(201)	(1 400)	(839)	(6 195)
MLP Pruszków III Sp. z o.o.	7 641	31 870	4 169	17 388	(51)	(83)	(211)	(370)
MLP Teresin Sp. z o.o.	6 856	28 596	2 620	10 928	(24)	-	(99)	-
MLP Poznań II Sp. z o.o.	6 643	27 707	4 823	20 116	(89)	(139)	(370)	(614)
MLP Pruszków IV Sp. z o.o.	13 163	54 902	9 214	38 431	(83)	(151)	(345)	(670)
MLP Lublin Sp. z o.o.	6 145	25 630	4 473	18 656	(95)	(130)	(398)	(576)
	<b>67 847</b>	<b>282 983</b>	<b>50 859</b>	<b>212 127</b>	<b>(543)</b>	<b>(1 903)</b>	<b>(2 262)</b>	<b>(8 425)</b>

Hedged position and hedging instrument - amortized Interest Rate Swap of initial value refer to values as at 31 December 2017.

\*The loan amounts are presented before the reduction by commission amounts.

The amounts recognized in the consolidated statement of profit or loss and other comprehensive income in 2017:

Entity	Amounts recognized in financial costs - ineffective part	Amounts recognized in financial costs - interest result	Amounts recognized in other comprehensive income
MLP Pruszków I Sp. z o.o.	(802)	1 631	4 529
MLP Pruszków III Sp. z o.o.	107	1	50
MLP Pruszków IV Sp. z o.o.	77	1	247
MLP Teresin Sp. z o.o.	-	(1)	(99)
MLP Poznań II Sp. z o.o.	20	-	224
MLP Lublin Sp. z o.o.	1	(30)	207
	<b>(597)</b>	<b>1 602</b>	<b>5 158</b>

The amounts recognized in the consolidated statement of profit or loss and other comprehensive income in 2016:

Entity	Amounts recognized in financial costs - ineffective part	Amounts recognized in financial costs - interest result	Amounts recognized in other comprehensive income
MLP Pruszków I Sp. z o.o.	77	1 584	4 162
MLP Pruszków III Sp. z o.o.	(365)	(11)	7
MLP Pruszków IV Sp. z o.o.	(374)	-	246
MLP Poznań II Sp. z o.o.	(52)	2	213
MLP Lublin Sp. z o.o.	30	(21)	(180)
	<b>(684)</b>	<b>1 554</b>	<b>4 448</b>

### 23. 3 The nature and extent of risks related to financial instruments

The Group's operations are mainly associated with exposure to the following types of financial risks:

- liquidity risk,
- market risk (including currency and interest rate risk),
- credit risk.

#### 23. 3. 1 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its long term bank credit and loan liabilities.

The below table shows the maturity structure of credits taking into account interest cash flows:

Credits - expected payments	up to 1 year	from 1 to 5 years	over 5 years	Total
<b>2017</b>	26 789	178 467	142 492	<b>347 748</b>
<b>2016</b>	19 414	141 350	151 249	<b>312 013</b>

The following table shows the maturity structure of derivative instruments related interest:

Derivative instruments - expected payments		from 1 to 5			Total
		up to 1 year	years	over 5 years	
2017	inflows	26	519	208	753
	outflows	(32)	(2 720)	(263)	(3 015)
		<b>(6)</b>	<b>(2 201)</b>	<b>(55)</b>	<b>(2 262)</b>
2016	inflows	-	36	-	36
	outflows	(7 479)	(999)	-	(8 478)
		<b>(7 479)</b>	<b>(963)</b>	<b>-</b>	<b>(8 442)</b>

The below table shows the maturity structure of loans taking into account cash flows from interest:

Loans - expected payments	from 1 to 5			Total
	up to 1 year	years	over 5 years	
2017	429	48 463	11 946	60 838
2016	580	54 029	14 490	69 099

### 23. 3. 2 Currency risk

The Group is subject to exchange rate risk because of the fact that a significant portion of financial assets and financial liabilities are denominated in EUR and USD.

The currency structure of financial instruments in particular years is presented below:

**The currency structure of financial instruments as at 31 December 2017 (PLN thousand):**

Financial assets	PLN	EUR	OTHER	Total
<b>Loans and receivables:</b>				
Cash and cash equivalents	24 633	37 330	2 864	64 827
Loans and receivables, including:				
• Trade and other receivables	11 012	5 433	-	16 445
• Loans granted	57 235	20 756	-	77 991
• Other long-term investments	1 731	11 011	-	12 742
• Other short-term investments	2 716	418	-	3 134
	<b>97 327</b>	<b>74 948</b>	<b>2 864</b>	<b>175 139</b>

Financial liabilities	PLN	EUR	OTHER	Total
<b>Hedging financial instruments:</b>				
Liabilities concerning SWAP transaction	-	2 262	-	2 262
<b>Financial liabilities measured at amortized cost:</b>				
Bank credits	839	328 908	-	329 747
Loans received	35 192	20 798	407	56 397
Trade and other liabilities	13 779	34 491	3	48 273
Lease liabilities	5 270	-	-	5 270
Bonds	-	83 773	-	83 773
	<b>55 080</b>	<b>470 232</b>	<b>410</b>	<b>525 722</b>

**The currency structure of financial instruments as at 31 December 2016 (PLN thousand):**

Financial assets	PLN	EUR	OTHER	Total
<b>Loans and receivables:</b>				
Cash and cash equivalents	31 605	30 062	27	<b>61 694</b>
Loans and receivables, including:				
• Trade and other receivables	27 062	121	-	<b>27 183</b>
• Loans granted	58 526	21 755	-	<b>80 281</b>
• Other long-term investments	1 219	7 348	-	<b>8 567</b>
• Other short-term investments	1 178	739	5 067	<b>6 984</b>
	<b>119 590</b>	<b>60 025</b>	<b>5 094</b>	<b>184 709</b>
<b>Financial liabilities</b>				
	<b>PLN</b>	<b>EUR</b>	<b>OTHER</b>	<b>Total</b>
<b>Instrumenty finansowe zabezpieczające:</b>				
Liabilities concerning SWAP transaction	-	8 425	-	<b>8 425</b>
Liabilities concerning other transactions	17	-	-	<b>17</b>
<b>Financial liabilities measured at amortized cost:</b>				
Bank credits	-	278 980	-	<b>278 980</b>
Loans received	36 476	21 791	3 631	<b>61 898</b>
Trade and other liabilities	25 610	22 919	3	<b>48 532</b>
Lease liabilities	5 259	-	-	<b>5 259</b>
	<b>67 362</b>	<b>332 115</b>	<b>3 634</b>	<b>403 111</b>

Because of the short foreign exchange position, the Group is particularly exposed to fluctuations of the EUR/PLN exchange rate. The table below presents the potential effects of a 5% depreciation of the PLN against the EUR and the USD on the financial results of the Group.

**The impact of the depreciation of the PLN on the results of the Group and its equity (PLN thousand)**

	<i>as at 31 December</i>	
	<b>2017</b>	<b>2016</b>
Increase in the exchange rate EUR/PLN by 5%	(19 764)	(13 604)
Increase in the exchange rate USD/PLN by 5%	123	73

A 5% depreciation of the PLN against the EUR would have an unfavorable impact on the Group's financial results, increasing the cost of debt because of the short foreign exchange position of the Group.

Depreciation of the Polish currency against USD by 5% has a favorably effect on the Group's results, increasing the interest income on granted currency loans denominated in USD.

**23. 3. 3 Interest rate risk**

Interest rate risk is primarily associated with loans and borrowings taken out as well with the outstanding floating-rate bonds. A change in an interest rate affects the cash flows related to the servicing of these liabilities. In order to mitigate the risk of interest rate fluctuations, the Group entered into interest rate swaps with the banks that finance its operations.

In the table below the potential impact of interest rates increased by 50 b.p. associated with financial liabilities was presented.



**Impact of interest rate changes on interest flows from loans and borrowings received and bonds issued:**

<i>as at 31 December</i>	<b>2017</b>	<b>2016</b>
EURIBOR + 50 p.b.	(724)	(182)
US LIBOR + 50 p.b.	(2)	(18)
WIBOR + 50 p.b.	(180)	(182)

The above sensitivity analysis presents how much debt service interest costs would increase at the end of the reporting period assuming a 50-base-point increase in interest rates.

**The impact of interest rate changes on interest inflows on loans granted:**

<i>as at 31 December</i>	<b>2017</b>	<b>2016</b>
EURIBOR + 50 p.b.	104	109
WIBOR + 50 p.b.	286	293

The above sensitivity analysis presents how much interest income would increase at the end of the reporting period assuming a 50-base-point increase in interest rates.

The table below presents potential impact of increase in interest rates by 50 b.p. associated with cash and cash equivalents.

**The impact of interest rate changes on interest inflows for cash and cash equivalents:**

<i>as at 31 December</i>	<b>2017</b>	<b>2016</b>
EURIBOR + 50 p.b.	244	191
WIBOR + 50 p.b.	145	170
US LIBOR + 50 p.b.	14	25

The above sensitivity analysis presents how much interest income would increase at the end of the reporting period assuming a 50-base-point increase in interest rates.

**23. 3. 4 Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or a counter party fails to meet its contractual obligations. Credit risk arises principally from receivables and cash and cash equivalents.

Group's maximum exposure to credit risk corresponds to the book values of the above-mentioned instruments.

Group reduces credit risk by deposits and bank guarantees securing timely fulfilment of the contracts by the tenants.

<i>as at 31 December</i>	<b>2017</b>	<b>2016</b>
The value of the deposit from tenants at the end of the reporting period	4 412	2 346

## 24. Operating lease

The Group signs operating lease agreements regarding rental of warehouse and office space. Agreements are signed for periods from 3 to 10 years, generally for 5 years. Typical agreement provides following methods of payments: (a) rent for leased space denominated in EUR (occasionally in USD and PLN) depending on the type and standard of the rental area, (b) property management fees covering the running costs denominated in PLN as PLN per 1 sqm of leasable area, (c) fees for participation in the real estate tax and (d) utility costs re invoicing.

As at 31 December 2017 the aggregate value of rental income (assuming a fixed exchange rate EUR/PLN and USD/PLN and a lack of indexation) amounts to PLN 400,3 mln, out of which PLN 66,3 mln is receivable within one year, PLN 195,1 mln in the period from 2 to 5 years, and PLN 138,9 mln after 5 years.

As at 31 December 2016 the aggregate value of rental income (assuming a fixed exchange rate EUR/PLN and USD/PLN and a lack of indexation) amounts to PLN 355,8 mln, out of which PLN 54,8 mln is receivable within one year, PLN 174,8 mln in the period from 2 to 5 years, and PLN 126,2 mln after 5 years.

## 25. Contractual investment liabilities

	<i>as at 31 December</i>	<b>2017</b>	<b>2016</b>
Contractual investment liabilities		29 011	41 446

Contractual investment commitments constitute the value of signed investment agreements, reduced by expenditures incurred as at the last day of the financial year.

## 26. Contingent liabilities and pledges

As at 31 December 2017 the Group had established the following security on its assets:

### 26. 1. Mortgages

Entity	Land register number	Details	Mortgage charge
		Mortgage to secure claims of Raiffeisen Bank S.A.	EUR 4 950 thousand
		Mortgage to secure claims of Raiffeisen Bank S.A.	EUR 1 500 thousand
	WA1P/00036973/9		
MLP Pruszków I Sp. z o.o.		Mortgage to secure credit repayment for Raiffeisen Bank S.A. - security of credit granted by Raiffeisen Bank Polska S.A. on the basis of agreement dated 4 December 2007	EUR 80 000 thousand
	WA1P/00036973/9		
	WA1P/00038590/4	Joint mortgage to secure claims of Raiffeisen Bank S.A. on the basis of agreement dated 16 December 2016	EUR 54 750 thousand
	WA1P/00038589/4		
	WA1P/00038595/9		
	WA1P/00038591/1	Joint mortgage to secure claims of Raiffeisen Bank S.A. on the basis of agreement dated 16 December 2016	EUR 14 426 thousand
	WA1P/00038596/6		
	WA1P/00038593/5		

Entity	Land register number	Details	Mortgage charge
MLP Pruszków III Sp. z o.o. <sup>1)</sup>	WA1P/00079808/5 WA1P/00101970/5	Joint mortgage to secure credit dated 5 November 2015 granted by BGŻ BNP PARIBAS S.A.	EUR 26 595 thousand
		Joint mortgage to secure claims under credit agreement dated 5 November 2015 granted by BGŻ BNP PARIBAS S.A.	PLN 3 810 thousand
		Joint contractual mortgage to secure the amounts payable under the loan agreement of 5 November 2015, as amended, and specifically under the VAT loan, in favor of BGŻ BNP PARIBAS S.A.	PLN 4 500 thousand
MLP Pruszków IV Sp. z o.o. <sup>2)</sup>	WA1P/00111450/7	Joint mortgage to secure credit repayment granted by mBank S.A. under the agreement dated 29 April 2016	EUR 18 107 thousand
		Joint mortgage to secure credit repayment granted by mBank S.A. under the agreement dated 29 April 2016 (A3b Tranche)	EUR 3 473 thousand
		Joint mortgage to secure claims under financial security agreements concluded for the purposes of the credit agreement dated 29 April 2016 granted by mBank S.A.	PLN 7 600 thousand
MLP Poznań II Sp. z o.o. <sup>3)</sup>	PO1D/00041540/8 PO1D/00050728/6 PO1D/00051882/0	Joint mortgage to secure credit granted by ING Bank Śląski S.A. under agreement no 11/0002 dated 08 August 2011 with amendments.	EUR 9 357 thousand
		Joint mortgage to secure credit granted by ING Bank Śląski S.A. under agreement no 11/0002 dated 08 August 2011 with amendments.	EUR 1 354 thousand
		Joint mortgage to secure claims for ING Bank Śląski S.A.	EUR 1 415 thousand
		Joint mortgage to secure VAT credit and interest claims of ING Bank Śląski S.A.	PLN 3 750 thousand
MLP Lublin Sp. z o.o.	LU1S/00012867/9	Mortgage to secure claims for PKO B.P. S.A. due to: investment credit agreement, working capital credit agreement dated 13 April 2015 for current VAT liabilities with its amendments and claims under concluded IRS transactions	EUR 25 502 thousand
MLP Teresin Sp. z o.o. <sup>4)</sup>	WA1G/00076402/9	Mortgage to secure credit granted by PEKAO BP S.A. under agreement dated 31 May 2016	EUR 10 796 thousand
		Mortgage to secure VAT credit granted by PEKAO BP S.A. under agreement dated 31 May 2016.	PLN 6 000 thousand
		Mortgage to secure claims under financial security agreements concluded for the purposes of the credit agreement dated 31 May 2016 granted PEKAO BP S.A.	PLN 5 600 thousand

<sup>1)</sup> In connection with the drawdown of additional loan tranches by MLP Pruszków II Sp. z o.o., the mortgage amounts were increased: from EUR 12,975 thousand to EUR 26,595 thousand and from PLN 2,895 thousand to EUR 3,810 thousand.

Also, as an amendment to the loan agreement was signed, a joint contractual mortgage was established up to the amount of PLN 4,500 thousand to secure repayment of any amounts due to the BGŻ BNP PARIBAS S.A. under the loan agreement and specifically under the VAT loan.

All the above amendments were registered in the land and mortgage registers in December 2017.

<sup>2)</sup> In February 2017, a mortgage was registered in favor of mBank S.A. to secure repayment of a loan under a loan agreement of 29 April 2016 – up to the amount of EUR 3,472.5 thousand.

<sup>3)</sup> In connection with the drawdown of another loan tranche (A4 construction tranche), the joint mortgage amount changed from EUR 11,114 thousand to EUR 9,356.84. Another joint mortgage was also established up to EUR 1,353.47 thousand. These amendments were registered in the land and mortgage registers in September 2017.

<sup>4)</sup> In February 2018, a contractual mortgage was entered in the land and mortgage register of MLP Teresin Sp. z o.o. up to the amount of PLN 5,600 thousand, to secure repayment of the principal, interest on the principal, CAP transaction and receivables under an IRS transaction.

## 26. 2. Financial and registered pledges on shares

Pledge type	Security	Value of the established security
<b><u>Securities established on the MLP Group's shares in the entities:</u></b>		
<b><i>Registered pledge on shares:</i></b>		
MLP Pruszków I Sp. z o.o.	Raiffeisen Bank Polska S.A receivables resulting from the credit CRD/25846/07 granted to MLP Pruszków I Sp. z o.o.	EUR 80 000 thousand
MLP Poznań II Sp. z o.o.	ING Bank Śląski S.A. receivables resulting from the credit granted ING 11/0002 granted to MLP Poznań II Sp. z o.o.	EUR 14 047 thousand
<b><i>Registered and financial pledge on shares:</i></b>		
MLP Pruszków III Sp. z o.o. <sup>1)</sup>	BGŻ BNP Paribas S.A. receivables resulting from the credit dated 5 November 2015 granted to MLP Pruszków III Sp. z o.o.	EUR 26 595 thousand
MLP Pruszków III Sp. z o.o. <sup>1)</sup>	BGŻ BNP Paribas S.A. receivables resulting from the credit dated 5 November 2015 granted to MLP Pruszków III Sp. z o.o.	EUR 4 500 thousand
MLP Wrocław Sp. z o.o. <sup>2)</sup>	PEKAO S.A. receivables resulting from the credit dated 11 October 2017r. granted to MLP Wrocław Sp. z o.o.	PLN 4 500 thousand
MLP Wrocław Sp. z o.o. <sup>2)</sup>	PEKAO S.A. receivables resulting from the credit dated 11 October 2017r. granted to MLP Wrocław Sp. z o.o.	EUR 27 638 thousand
MLP Pruszków I Sp. z o.o. <sup>3)</sup>	Raiffeisen Bank Polska S.A receivables resulting from the credit CRD/25846/07 granted to MLP Pruszków I Sp. z o.o.	EUR 54 750 thousand

Pledge type	Security	Value of the established security
<b><u>Securities established on the MLP Property Sp. z o.o.'s shares in the entities:</u></b>		
<b><i>Registered pledge on shares:</i></b>		
MLP Lublin Sp. z o.o.	PKO BP S.A. receivables resulting from investment credit	EUR 19 221 thousand
<b><i>Financial pledge on shares:</i></b>		
MLP Poznań II Sp. z o.o.	ING Bank Śląski S.A. receivables resulting from credit no. ING 11/0002	EUR 14 047 thousand
<b><i>Registered and financial pledge on shares</i></b>		
MLP Pruszków IV Sp. z o.o.	mBank S.A. receivables resulting from credit agreement dated 17 December 2014 with MLP Pruszków IV Sp. z .o.o	EUR 10 579 thousand
MLP Pruszków IV Sp. z o.o.	mBank S.A. receivables resulting from credit agreement dated 17 December 2014 with MLP Pruszków IV Sp. z .o.o (VAT credit)	PLN 3 750 thousand
MLP Pruszków IV Sp. z o.o. <sup>4)</sup>	mBank S.A. receivables resulting from credit agreement dated 29 April 2016	EUR 21 579 thousand
MLP Pruszków III Sp. z o.o. <sup>1)</sup>	BGŻ BNP Paribas S.A. receivables resulting from the credit dated 5 November 2015 granted to MLP Pruszków III Sp. z o.o.	EUR 12 975 thousand
MLP Pruszków III Sp. z o.o. <sup>1)</sup>	BGŻ BNP Paribas S.A. receivables resulting from the credit dated 5 November 2015, with amendments, granted to MLP Pruszków III Sp. z o.o.	PLN 4 500 thousand
MLP Teresin Sp. z o.o.	PEKAO S.A. receivables resulting from the credit dated 31 May 2016 granted to MLP Teresin Sp. z o.o.	EUR 10 796 thousand
MLP Teresin Sp. z o.o.	PEKAO S.A. receivables resulting from the credit dated 31 May 2016 granted to MLP Teresin Sp. z o.o. (VAT credit)	PLN 6 000 thousand

Pledge type	Security	Value of the established security
<b><u>Securities established on the MLP Poznań Sp. z o.o.'s shares in the entities:</u></b>		
<b><i>Registered and financial pledge on shares:</i></b>		
MLP Poznań II Sp. z o.o.	ING Bank Śląski S.A. receivables resulting from the credit no. ING 11/0002 granted to MLP Poznań II Sp. z o.o.	EUR 14 047 thousand
<b><u>Securities established on the MLP Pruszków II Sp. z o.o.'s shares in the entities:</u></b>		
<b><i>Registered pledge on shares:</i></b>		
MLP Pruszków III Sp. z o.o. <sup>1)</sup>	Deutsche Bank PBC S.A. receivables resulting from credit no KNK/1212752 granted to MLP Pruszków III Sp. z o.o.	EUR 26 595 thousand
<b><i>Registered and financial pledge on shares:</i></b>		
MLP Pruszków IV Sp. z o.o. <sup>4)</sup>	mBank S.A. receivables resulting from credit agreement dated 17 December 2014 with MLP Pruszków IV Sp. z o.o.	EUR 21 579 thousand
MLP Pruszków IV Sp. z o.o.	mBank S.A. receivables resulting from credit agreement dated 17 December with MLP Pruszków IV Sp. z o.o. (revolving credit)	PLN 3 750 thousand
MLP Pruszków III Sp. z o.o. <sup>1)</sup>	BGŻ BNP Paribas S.A. receivables resulting from the credit dated 5 November 2015, with amendments, granted to MLP Pruszków III Sp. z o.o.	PLN 4 500 thousand

<sup>1)</sup> In connection with the drawdown of an additional loan tranche by MLP Pruszków III Sp. z o.o., in the last quarter of 2017, the amount of financial and registered pledges was increased from EUR 12,975 thousand to EUR 26,595 thousand; the pledges were established on the shares held by MLP Group S.A. and MLP Pruszków II Sp. z o.o. in MLP Pruszków III Sp. z o.o.

Furthermore, in October 2017, registered and financial pledges were established on the shares held by MLP Property Sp. z o.o., MLP Group S.A. and MLP Pruszków II Sp. z o.o. in MLP Pruszków III Sp. z o.o., up to the amount of PLN 4,500 thousand.

<sup>2)</sup> In connection with the loan agreement executed on 11 October 2017 by MLP Wrocław Sp. z o.o. with bank PeKaO S.A., registered and financial pledges were established on shares held by MLP Group S.A. in MLP Wrocław Sp. z o.o. up to the security amount of EUR 27,637.5 thousand and PLN 4,500 thousand.

<sup>3)</sup> In connection with the loan agreement executed on 16 December 2016 by MLP Pruszków I Sp. z o.o. with the Raiffeisen Bank Polska S.A. bank, registered and financial pledges were established on the shares held by MLP Group S.A. in MLP Pruszków I Sp. z o.o. up to the security amount of EUR 54,750 thousand. The pledges were registered in the pledge register in January 2017.

<sup>4)</sup> In connection with an annex to the loan agreement signed on 21 December 2016 between MLP Pruszków IV Sp. z o.o. and mBank S.A., in February 2017, the registered pledge amount was raised from EUR 18,106.5 thousand to EUR 21,579 thousand.

### **26. 3. Pledges on cash receivables**

As per the credit agreement executed on 16 December 2016 between MLP Pruszków I Sp. z o.o. and Raiffeisen Bank Polska S.A., in January 2017, the registered and financial pledges were established (and entered into the register of pledges) on cash receivables, up to EUR 54.750 thousand, as security of repayment of receivables to Raiffeisen Bank Polska S.A. due for the credit granted to the company. Furthermore, in February 2017, a pledge on a set of movable things and rights belonging to the pledgor was established (and entered into the register of pledges) up to EUR 54.750 thousand.

In 2017 and at the beginning of 2018, registered and financial pledges were established (and registered in the pledge register) on cash receivables up to the amount of PLN 4,500 thousand, to secure the repayment of amounts due to BGŻ BNP Paribas S.A. under the loan of 5 November 2015 taken out by MLP Pruszków III Sp. z o.o.

### **26. 4. Guarantees**

In H1 2017, all the guarantees extended by MLP Pruszków I Sp. z o.o. in favor of Mercantile Discount Bank expired.

As at 31 December 2017 the Group did not grant any guarantees.

### **26. 5. Additional guarantees**

As at 31 December 2017 the Group did not grant any additional guarantees.

### **26. 6. Other security**

- **Security claims to mBank S.A.:**
  - Assignment of the claims under the insurance policy,
  - Assignment of the lease agreements,
  - Power of attorney to all the accounts of the borrower,
  - The agreement of loans subordination,
  - A blank bill of exchange,
  - Statement of execution.
  
- **Security claims to Raiffeisen Bank Polska S.A.:**
  - Assignment of the lease agreements,
  - Power of attorney to all the accounts of the borrower,
  - Restricted cash for debt service,
  - Assignment of the agreements relating to construction works,
  - Assignment of the claims under the insurance policy,
  - The agreement of loan subordination.
  
- **Security claims to BGŻ BNP Paribas S.A.:**
  - Power of attorney to all the accounts of the borrower,
  - Assignment of rights under the contract transfer,
  - Statement of execution of each borrower,
  - Statement of execution of each borrower's shareholder,
  - Subordination of claims based on the subordination agreement,
  - Restricted cash for debt service,
  - Assignment of the claims under the insurance policy.

- **Security claims to ING Bank Śląski S.A.:**
  - Assignment of the claims under the insurance policy,
  - Deposit of EUR 85,000 thousand,
  - Assignment of the lease agreements,
  - Power of attorney to all the accounts of the borrower,
  - Agreement regarding establishment of a deposit for ING Bank Śląski S.A. to secure receivables from the loan granted for MLP Poznań II Sp. z o.o. and interest, charges and costs under the agreement,
  - Appendix signed for registered and financial pledge agreement on shares of MLP Poznań II Sp. z o.o.
- **Security claims to PKO B.P. S.A.:**
  - A blank bill of exchange with blank promissory note agreement,
  - Debt deduction clause from the borrower's accounts held at the bank,
  - An assignment of cash claims from the property insurance agreement during the construction and after completion (throughout the credit period),
  - Assignment of the lease receivables,
  - Assignment of guarantee deposits from the lease agreement,
  - A guarantee granted by MLP Group S.A. under the civil law for the full amount of the credit, valid until the decision concerning the mortgage registration is in force,
  - An assignment of cash claims from the management agreement concluded with MLP Group S.A., or another entity,
  - An assignment of claims regarding contract/contracts rights concluded with the general contractor and an assignment of cash from the successful execution guarantee,
  - A deposit on the bank account as collateral of credit payments,
  - Transfer of cash receivables from profit insurance policy to the borrower,
- **Security claims to PEKAO S.A.:**
  - Power of attorney to all the accounts of the borrower,
  - Blocking of bank accounts,
  - Transfer to collateral under the transfer agreement,
  - Statement of execution,
  - Subordination of claims based on the subordination agreement,
  - Restricted cash for debt service,

## **26. 7. Other contingent liability**

MLP Pruszków I Sp. z o.o., MLP Pruszków II Sp. z o.o. and MLP Pruszków III received decisions about changes to the perpetual usufruct fee. According to the decisions, the total amount to be paid is PLN 8,769 thousand. The Management Boards of the companies do not accept the amount of the fees and so the case was brought before a court.

The Group has not recognized any additional provisions for potential claims of the Pruszków Starost for the revised perpetual usufruct fees.



## 27. Related party transactions

### 27. 1 Loans granted and received

Related party balances related to loans granted and received as at 31 December 2017 are as follows:

	Loans granted	Loans received
<b>Other related parties</b>		
Fenix Polska Sp. z o.o.	55 820	56 397
MLP FIN Spółka z ograniczoną odpowiedzialnością Sp.k.	32	-
<b>Total</b>	<b>55 852</b>	<b>56 397</b>

### 27. 2 Revenues and expenses

Related party transactions related to revenues and expenses for the year ended 31 December 2017 are as follows:

	Purchase of services and salary cost	Interest income	Interest cost
<b>Other related parties</b>			
Fenix Polska Sp. z o.o.	-	1 198	1 352
	-	<b>1 198</b>	<b>1 352</b>
<b>Key management personnel</b>			
RTK CONSULTING, Radosław T. Krochta	(698)	-	-
ROMI CONSULTING, Michael Shapiro	(407)	-	-
PROFART, Tomasz Zabost	(463)	-	-
PEOB, Marcin Dobieszewski	(218)	-	-
Pozostały kluczowy personel kierowniczy	(790)	-	-
	<b>(2 576)</b>	-	-
<b>Total</b>	<b>(2 576)</b>	<b>1 198</b>	<b>1 352</b>

Fenix Polska Sp. z o.o. is a related party through Cajamarca Holland B.V. which, as at 31 December 2017, owns 100% of shares in Fenix Polska Sp. z o.o. and 56.98% in the share capital of the Group.

## 28. Significant litigation and disputes

### 28. 1 Czerwona Torebka S.A.

On 29 January 2016 the suspensive condition in respect to purchase by MLP Poznań West Sp. z o.o. from "Trzecia – Czerwona Torebka spółka akcyjna" sp.k. of a property located in Więckowice (Dopiewo community, poznański county, wielkopolskie voivodeship), consisting of plot under land register no. PO1P/00295155/9 kept by Poznań District Court - Old Town in Poznań, V department of land registers, did not come into force. The suspensive condition in the lease agreements concluded with the following entities was not fulfilled: "Dyskont Czerwona Torebka" S.A. (formerly: "Dziewięta – Czerwona Torebka spółka akcyjna" S.K.A.); "Małpka" S.A. (in the moment of signing the lease agreement the company belonged to "Czerwona Torebka" S.A. capital group).

The seller did not reach a satisfactory legal status of the above mentioned property resulting in failure condition.

Due to the fact, that "Trzecia – Czerwona Torebka spółka akcyjna" sp.k. did not return a loan of PLN 20.790.455 to MLP Poznań West Sp. z o.o., on 29 January 2016 the company filed a lawsuit in District Court in Poznań against:

- "Trzecia – Czerwona Torebka spółka akcyjna" sp.k. for PLN 21.888.674,51 plus statutory interest for the period from the day of filing the suit until the repayment date;
- Czerwona Torebka S.A. for PLN 21,258,766.01 plus statutory interest for the period from the day of filing the suit until the repayment date,

with the stipulation, that with relation to PLN 21.258.766,01 plus statutory interest for the period from the day of filing the suit until repayment date, responsibility of defendants is joint, taking into account that payment of that amount by one of the defendants relieves the second defendant.

Repayment of the loan is secured by a contractual mortgage of PLN 31.094.182,50, entered in section IV of the land register no. PO1P/00295155/9 kept by the Poznań District Court - Old Town in Poznań, V department of land registers for plots 319/1, 319/2 and 319/3 with a total area of 45,9807 ha.

The first instance court handed down a decision in this case accepting the claim and awarding payment of the above-mentioned amounts to the company. The ruling is not final. The defendants appealed the verdict.

## **28. 2 CreditForce Holding B.V**

On 12 January 2012 the Warsaw District Court pronounced its verdict in favor of MLP Tychy Sp. z o.o. (currently MLP Sp. z o.o. SKA) for PLN 2.005 thousand plus contractual interest from CreditForce Holding BV with its seat in Houten (Netherlands) jointly with the European Bakeries Sp. z o.o., respective default judgment rendered on 16 March 2011.

The abovementioned amount includes receivables from investment expenditures incurred by the lessor related to the construction works that increased the technical standard of the leased asset.

On 22 November 2012, CreditForce Holding BV filed to the District Court in Warsaw a complaint to renew the proceedings. The court suspended the execution of the judgment. In the course of the proceedings, the Company received information that CreditForce Holding BV declared bankruptcy.

Currently there are two proceedings in front of the Warsaw District Court: to renew the proceedings ended with a legally valid verdict and objection to the default verdict in the case mentioned above (proceedings were suspended because CreditForce Holding B.V. declared bankruptcy). The Group recognized an impairment allowance of the abovementioned receivables.

On 24 June 2015, a response was submitted to the complaint by European Bakeries Sp. z o.o. to renew the proceedings, which were then discontinued on 12 August 2016.

## **28. 3 OLPIZ Sp. z o.o.**

On 16 January 2014 the Issuer's subsidiary MLP Sp. o.o. SKA (formerly MLP Tychy Sp.) received a formal notice to pay PLN 5,406 thousand for improper storage and custody over possessions taken over by the court executive officer in the course of enforcement actions and loss of profits of OLPIZ Sp. z o.o. The Management of the Group, after consultation with their lawyer, does not agree with this claim. Therefore the Group has not created a provision. Currently the case is proceeded in front of the court of first instance.

No decision has been issued in this case; neither the plaintiff nor its proxy have appeared at any of the hearings.

## **29. Significant events during the financial year and subsequent events**

- On 13 January 2017 Reiffeisen Bank Polska S.A. granted a loan to MLP Pruszków I Sp. z o.o. for refinancing its previous debt.
- On 9 February 2017 MLP Poznań Sp. z o.o. entered into credit agreement with ING Bank Śląski S.A.

- On 2 March 2017 MLP Pruszków III Sp. z o.o. merged with MLP Moszna I Sp. z o.o. As a consequence MLP Moszna I Sp. z o.o.'s entire assets were taken over by the MLP Pruszków III Sp. z o.o.
- On March, April and August 2017 Bank mBank S.A released the next tranche of the loan towards MLP Pruszków IV Sp. z o.o.
- On 26 April 2017 Extraordinary Shareholders' Meeting of MLP Energy Sp. z o.o entrusted Mr. Marcin Dobieszewski as the President of the Management Board position, and Mr. Radosław T. Krochta as the Vice-president of the Management Board position.
- On 26 April 2017, by virtue of the resolutions of the Extraordinary Shareholders' Meeting, Mr. Radosław T. Krochta was appointed President of the Management Board in following entities: MLP Pruszków I Sp. z o.o., MLP Pruszków II Sp. z o.o., MLP Pruszków III Sp. z o.o., MLP Pruszków IV Sp. z o.o., MLP Poznań Sp. z o.o., MLP Lublin Sp. z o.o., MLP Poznań II Sp. z o.o., MLP Property Sp. z o.o., MLP Bieruń Sp. z o.o., MLP Bieruń I Sp. z o.o., MLP Sp. z o.o., MLP Poznań West Sp. z o.o., MLP Teresin Sp. z o.o., MLP Fin Sp. z o.o., Lokafo 201 Sp. z o.o., MLP Wrocław Sp. z o.o., MLP Gliwice Sp. z o.o., MLP Łódź Sp. z o.o., MLP Czeladź Sp. z o.o., MLP Temp Sp. z o.o.
- On May, July and November 2017 PKO BP S.A released the next tranche of the loan towards MLP Lublin Sp. z o.o.
- On July and October 2017 ING Bank Śląski S.A released the next tranches of loan towards MLP Poznań II Sp. z o.o.
- On February 2018 ING Bank Śląski S.A released the next tranche of the loan towards MLP Poznań II Sp. z o.o.
- On June, July and November 2017 roku Bank Polska Kasa Opieki S.A released the next tranche of the loan towards MLP Teresin Sp. z o.o.
- In November 2017, MLP Teresin Sp. z o.o. converted a tranche of a housing loan into an investment loan.
- On December 2017 roku Bank BNP BGŻ Paribas S.A released the next tranche of the loan towards MLP Pruszków III Sp. z o.o.
- On 11 October 2017, MLP Wrocław Sp. z o.o. signed a loan agreement with Bank Polska Kasa Opieki S.A., and in November 2017, a tranche of the loan was drawn down.
- On 11 May 2017, as a part of private offer, the Company issued 20,000 A series bearer bonds, with a nominal value of EUR 1,000 each and a total issue value of EUR 20,000,000 ("Bonds"). Bonds are subject to variable interest rate of EURIBOR for six-month EUR bank deposits plus a premium.  
The Bonds have been issued as non-secured bonds.  
The purpose of the issuance of the Bonds was not specified.  
The redemption of the Bonds is scheduled for 11 May 2022, with a possibility of an early redemption by the Company.
- On 19 October 2017, MLP Bucharest West SRL, a subsidiary of the Company, entered into an agreement to acquire a property located in Rudeni Village, Chitila Town, Ilfov County in Romania (Romanian name: Sat Rudeni, Oras Chitila, Judet Ilfov) total area of 188,045 square meters, for the price of 4,000,000 Euro (including the outlay on this property and the installation for the supply of electricity). The property is registered in the land registers in Chitila (Romanian name: Cartea Funciara Chitila) with the numbers 51425, 51426, 51427, 51428 and 53566.
- On 13 March 2018 MLP Gliwice Sp. z o.o. entered into credit agreement with PeKaO S.A.

Following the end of the reporting period, until the date of approval for publication of these consolidated financial statements, no other events occurred which were not, but should have been, included both in the accounting books of the reporting period or the consolidated financial statements of the Group.

### 30. Remuneration paid or due to members of management and supervisory bodies

<i>for the year ended 31 December</i>	<b>2017</b>	<b>2016</b>
<b>Remuneration of Management Board:</b>		
• <b>Remuneration and other benefits:</b>		
Radosław T. Krochta	698	939
Michael Shapiro	407	419
Tomasz Zabost	463	507
Marcin Dobieszewski	218	220
	<b>1 786</b>	<b>2 085</b>
• <b>Cash settled share based payment paid in the period</b>	1 011	630
	<b>2 797</b>	<b>2 715</b>
<i>for the year ended 31 December</i>	<b>2017</b>	<b>2016</b>
<b>Remuneration of Supervisory Board:</b>		
• <b>Remuneration and other benefits</b>		
Maciej Matusiak	30	30
Jacek Tucharz	30	30
Eytan Levy	30	30
Shimshon Marfogel	30	30
Yosef Zvi Meir	30	30
Guy Shapira	30	30
	<b>180</b>	<b>180</b>
<b>Total remuneration paid or due to Management Board, Supervisory Board and Key Management Personnel</b>	<b>2 977</b>	<b>2 895</b>
<b>Other Key Management Personnel:</b>		
• Remuneration and other benefits	790	543
• Cash settled share based payment paid or due in the period	521	285
	<b>1 311</b>	<b>828</b>
<b>Total remuneration paid or due to Management Board, Supervisory Board and Key Management Personnel</b>	<b>4 288</b>	<b>3 723</b>

The above note presents remuneration of members of management and supervisory bodies and costs of services provided to subsidiaries of the Group and other Key Management Personnel, as well as the costs of services provided to other companies in the Group, and other management personnel.

Apart from the transactions presented above, Members of the Management Board, Supervisory Board and other Key Management Personnel did not receive any other benefits from any of the entities of the Capital Group.

### 31. Employment structure

	<i>for the year ended 31 December</i>	<b>2017</b>	<b>2016</b>
Average number of employees		19	16

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**Radosław T. Krochta**  
*President of the Management Board*

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**Michael Shapiro**  
*Vice-President of the  
Management Board*

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**Tomasz Zabost**  
*Member of the Management Board*

*Pruszków, 14 March 2018 r.*



# **Management Board report on the activities of MLP Group S.A. Capital Group**

**for the year ended 31 December 2017**

The Management Board's report on the activities of MLP Group S.A. Capital Group for the year ended 31 December 2017 was prepared in accordance with paragraph 91 of the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by law of Non-Member States (Official Journal 2014 No. 133 with amendments).

## Table of contents:

<b>MLP Group S.A. Management Board approval of the report on the MLP Group S.A. Capital Group Activities for the year ended 31 December 2017</b>	<b>81</b>
<b>Introduction</b>	<b>82</b>
<b>1. Basic information on MLP Group S.A. Capital Group</b>	<b>83</b>
1.1 Group structure	83
1.2 Scope of activities of the Group	85
1.3 Information about the Capital Group real estate portfolio	86
1.4 Information about the market, customers and suppliers	89
1.4.1 The structure of the Group's sales	89
1.4.2 The largest counterparties	90
<b>2. MLP Group S.A. Capital Group activities</b>	<b>91</b>
2.1 Activities of MLP Group S.A. Capital Group in 2017	91
2.1.1 Investment projects started and completed	91
2.1.2 Development projects currently underway and in preparation	93
2.1.3 Agreements between the shareholders	93
2.1.4 Agreements between the shareholders	93
2.1.5 Cooperation and collaboration agreements	94
2.1.6 Transactions with related parties	94
2.1.7 Litigation	94
2.2 Development of the MLP Group S.A. Capital Group, risk factors	95
2.2.1 Key risk factors relevant to the development of the Group	94
2.2.2 Business prospects	100
<b>3. Capital Group's financial position, financial resources management</b>	<b>102</b>
3.1 Key economic and financial data disclosed in the consolidated financial statements of the Group for the year 2017	102
3.1.1 Selected financial data from the consolidated statement of financial position	102
3.1.2 Selected financial data from the consolidated statement of profit or loss	107
3.1.3 Selected information from the consolidated statement of cash flows	109
3.2 Management's approach to published forecasts	109
3.3 Group's financial management	110
3.3.1 Profitability ratios	111
3.3.2 Liquidity ratios	112
3.3.3 Debt ratios	113

<b>3.4</b>	<b>Information on bank credits, bonds, loans, securities and guarantees</b>	<b>114</b>
3.4.1	<i>Concluded and terminated loan agreements</i>	114
3.4.2	<i>Concluded and terminated bank credit agreements</i>	114
3.4.3	<i>Bonds</i>	115
3.4.4	<i>Loans granted</i>	115
3.4.5	<i>Granted and received securities</i>	115
3.4.6	<i>Granted and received guarantees</i>	115
<b>3.5</b>	<b>Assessment of the feasibility of the investment plans</b>	<b>115</b>
<b>3.6</b>	<b>Evaluation of factors and unusual events affecting consolidated financial result for the current period</b>	<b>116</b>
<b>3.7</b>	<b>Information about issuing, repurchasing and repaying non-equity and equity securities</b>	<b>116</b>
<b>3.8</b>	<b>Concise description of significant successes achieved or failures occurred in 2017</b>	<b>116</b>
<b>3.9</b>	<b>Seasonal or cyclical nature of operations</b>	<b>116</b>
<b>4.</b>	<b>Corporate governance</b>	<b>117</b>
<b>4.1</b>	<b>Share capital and the shareholders</b>	<b>120</b>
4.1.1	<i>Shareholders</i>	120
4.1.2	<i>Special rights of the Shareholders</i>	121
4.1.3	<i>Voting rights restrictions</i>	121
<b>4.2</b>	<b>General Meeting of Shareholders</b>	<b>122</b>
<b>4.3</b>	<b>Policy for amending the Articles of Association</b>	<b>123</b>
<b>4.4</b>	<b>Management Board</b>	<b>124</b>
4.4.1	<i>Competence of the Management Board</i>	124
4.4.2	<i>Principles of operation of the Management Board</i>	125
4.4.3	<i>Skład osobowy Zarządu</i>	126
<b>4.5</b>	<b>The Supervisory Board</b>	<b>127</b>
4.5.1	<i>Competence of the Supervisory Board</i>	127
4.5.2	<i>Principles of operation of the Supervisory Board</i>	128
4.5.3	<i>Composition of the Supervisory Board</i>	128
4.5.4	<i>Committees of the Supervisory Board</i>	130
<b>4.6</b>	<b>Remuneration and employment contracts of the members of the Management Board, the Supervisory Board</b>	<b>131</b>
4.6.1	<i>Remuneration, bonuses and benefits received by the members of Management Board and the Supervisory Board</i>	131
4.6.2	<i>Agreements with members of the Management Board in case of resignation, dismissal</i>	131
<b>4.7</b>	<b>Shares held by members of the Management Board and the Supervisory Board</b>	<b>132</b>
<b>4.8</b>	<b>Management stock options program</b>	<b>132</b>
<b>4.9</b>	<b>Changes in the core principles of management of the Company and the Group</b>	<b>132</b>
<b>4.10</b>	<b>The system of internal control and risk management</b>	<b>132</b>
<b>4.11</b>	<b>Entity authorized to audit the financial statements</b>	<b>134</b>



## MLP Group S.A. Management Board approval of the report on the MLP Group S.A. Capital Group Activities for the year ended 31 December 2017

The Management Report on the MLP Group S.A. Capital Group activities for the year ended 31 December 2017 was prepared and approved by the Management Board on 14 March 2017.

-----  
**Radosław T. Krochta**  
*President of the  
Management Board*

-----  
**Michael Shapiro**  
*Vice-President of the  
Management Board*

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**Tomasz Zabost**  
*Member of the  
Management Board*

*Pruszków, 14 March 2018 roku*

## Introduction

The Parent Company of the MLP Group S.A. Capital Group ("Group") is MLP Group S.A. ("Company", "Issuer", "Parent Company"). The Company is registered in the National Court Register under registration number 0000053299, District Court for the Capital City Warsaw, XIV Department of the National Court Register. Company headquarters is located in Pruszków (05-800 Pruszków, 3-go Maja 8 Street).

The Company was founded on 18 February 1995 (The act of transformation) and is established for an indefinite period.

The core business of the Parent Company and its subsidiaries is management, buying and selling of real estate, rental of real estate, the management of residential and non-residential properties, construction works related to the construction of buildings and other construction. The predominant type of activity is PKD symbol: 7032Z property management services.

The higher level parent company for the Group is CAJAMARCA HOLLAND B.V. that is registered in the Netherlands, 2 Martinus Nijhofflaan, 2624 ES Delft.

The ultimate parent company for the Group is Israel Land Development Company Ltd., registered in Tel-Aviv, Israel ("ILDC"). ILDC shares are listed on the Tel-Aviv Stock Exchange.

## 1. Basic information on MLP Group S.A. Capital Group

### 1. 1 Group structure

As at 31 December 2017, MLP Group S.A. Group consisted of following entities:

Entity	Country of registry	Direct and indirect share of the Parent Company in the equity	Direct and indirect share of the Parent Company in the voting rights
MLP Pruszków I Sp. z o.o.	Poland	100%	100%
MLP Pruszków II Sp. z o.o.	Poland	100%	100%
MLP Pruszków III Sp. z o.o.	Poland	100%	100%
MLP Pruszków IV Sp. zo.o.	Poland	100%	100%
MLP Poznań Sp. z o.o.	Poland	100%	100%
MLP Lublin Sp. z o.o.	Poland	100%	100%
MLP Poznań II Sp. z o.o.	Poland	100%	100%
MLP Spółka z ograniczoną odpowiedzialnością SKA	Poland	100%	100%
MLP Energy Sp. z o.o.	Poland	100%	100%
MLP Property Sp. z.o.o.	Poland	100%	100%
MLP Bieruń Sp. z o.o.	Poland	100%	100%
MLP Bieruń I Sp. z o.o.	Poland	100%	100%
MLP Sp. z o.o.	Poland	100%	100%
MLP Teresin Sp. z o.o.	Poland	100%	100%
MLP Poznań West Sp. z o.o.	Poland	100%	100%
MLP FIN Sp. z o.o.	Poland	100%	100%
LOKAFOP 201 Sp. z o.o.	Poland	100%	100%
LOKAFOP 201 Spółka z ograniczoną odpowiedzialnością SKA	Poland	100%	100%
MLP Wrocław Sp. z o.o.	Poland	100%	100%
MLP Gliwice Sp. z o.o.	Poland	100%	100%
MLP Łódź Sp. z o.o.	Poland	100%	100%
MLP Czeladź Sp z o.o.	Poland	100%	100%
MLP Temp Sp. z o.o.	Poland	100%	100%
MLP Dortmund LP Sp. z o.o. <sup>1)</sup>	Poland	100%	100%
MLP Dortmund GP Sp. z o.o. <sup>2)</sup>	Poland	100%	100%
MLP Logistic Park Germany I Sp. z o.o. &Co KG. <sup>3)</sup>	Germany	100%	100%
MLP Poznań West II Sp. z o.o. <sup>4)</sup>	Poland	100%	100%
MLP Bucharest West Sp. z o.o. <sup>5)</sup>	Poland	100%	100%
MLP Bucharest West SRL <sup>6)</sup>	Romania	100%	100%
MLP Teresin II Sp. z o.o. <sup>7)</sup>	Poland	100%	100%

## Changes in the Group

On 2 March 2017, MLP Pruszków III Sp. z o.o. and MLP Moszna I Sp. z o.o. merged, the entire assets of MLP Moszna I Sp. z o.o. were transferred to MLP Pruszkow III Sp. z o.o

<sup>1)</sup> On 3 March 2017 a new company of the MLP Group S.A. Capital Group, MLP Dortmund LP Sp. z o.o. was established. The company was registered in the National Court Register on 9 March 2017. Shares in newly created company were acquired entirely by MLP Group S.A. (100 shares with a total nominal value of PLN 5,000).

<sup>2)</sup> On 3 March 2017 a new company of the MLP Group S.A. Capital Group, MLP Dortmund GP Sp. z o.o. was established. The company was registered in the National Court Register on 8 March 2017. Shares in newly created company were acquired entirely by MLP Group S.A. (100 shares with a total nominal value of PLN 5,000).

<sup>3)</sup> On 20 March 2017, a new Company was established in the Group under the name MLP Logistic Park Germany I Sp. z o.o. &Co KG, for which MLP Dortmund LP Sp. z o.o. is Limited Partner and MLP Dortmund GP Sp. z o.o. is General Partner.

<sup>4)</sup> On 12 April 2017 a new company of the MLP Group S.A. Capital Group, MLP Poznań West II Sp. z o.o. was established. The company was registered in the National Court Register on 18 April 2017. Shares in newly created company were acquired entirely by MLP Group S.A. (100 shares with a total nominal value of PLN 5,000).

<sup>5)</sup> On 28 April 2017 a new company of the MLP Group S.A. Capital Group, MLP Bucharest West Sp. z o.o. was established. The company was registered in the National Court Register on 5 May 2017. Shares in newly created company were acquired entirely by MLP Group S.A. (100 shares with a total nominal value of PLN 5,000).

<sup>6)</sup> On 14 July 2017 a new company of the MLP Group S.A. Capital Group, MLP Bucharest West SRL was established. Shares in newly created company were acquired by MLP Bucharest West Sp. z o.o. 4,564 shares (99,98%) and MLP Property Sp. z o.o. 1 share (0,02%).

<sup>7)</sup> On 24 October 2017 a new company of the MLP Group S.A. Capital Group, MLP Teresin II Sp. z o.o. was established. Shares in newly created company were acquired entirely by MLP Group S.A. (100 shares with a total nominal value of PLN 5,000).

## 1. 2 Scope of activities of the Group

MLP Group is one of the leading developers of warehouse and production space in Europe. Since 1998, the MLP Group has conducted activity on the commercial property market, specializing in the construction of modern warehouse and production centers and offering its lessees both warehouse and logistics space and production space adjusted to conducting light industrial production. The Group operates on the Polish, German and Romanian market as a property developer, consultant and property manager, providing comprehensive solutions to numerous Polish and international logistics, distribution and production companies, enabling them to optimize their warehouse and production space.

In order to provide high quality services, all projects undertaken by the Group are distinguished by an attractive location of the logistics parks, application of built-to-suit type solutions and support given to tenants during the lease term. Management believes that the attractiveness of the location of the logistics parks operated by the Group is reflected in the following criteria:

- location of logistics parks near large metropolitan areas,
- location of logistics parks near road communication nodes,
- easy access to public transportation to and from the logistics parks.

MLP Group conducts its business in the Polish, German and Romanian markets. In Poland, the Group operates seven logistics parks: MLP Pruszków I, MLP Pruszków II, MLP Poznań, MLP Lublin, MLP Teresin, MLP Wrocław, MLP Gliwice, and one logistics park under construction – MLP Czeladź. Under a developer agreement, the Group is also responsible for the commercialization of the MLP Bieruń logistics park, which was sold in 2015. In Germany, the Group currently operates one logistics park – MLP Unna. In Romania, the Group purchased land for development of a new logistics park – MLP Bucharest West. The total area of the Group's land bank is approx. 97.1 hectares. The Group has also executed reservation agreements to purchase new plots of land for its planned logistics parks. This means that the current and potential real estate portfolio managed by the MLP Group consists of a total of sixteen operating logistics parks located in three European markets.

### 1.3 Information about the Capital Group real estate portfolio

In Poland, the Group operates seven logistics parks: MLP Pruszków I, MLP Pruszków II, MLP Poznań, MLP Lublin, MLP Teresin, MLP Wrocław, MLP Gliwice, and one logistics park under construction – MLP Czeladź. Under a developer agreement, the Group is also responsible for the commercialization of the MLP Bieruń logistics park, which was sold in 2015. In Germany, the Group currently operates one logistics park – MLP Unna. In Romania, the Group purchased land for development of a new logistics park – MLP Bucharest West.

The Group classifies its investment portfolio under two categories:

- properties generating rental income,
- investment projects and surplus land.

The following table shows the structure of the investment portfolio by category of the Group's parks at 31 December 2017:

Logistics parks in Poland	Location	Target area (sq.m)	Developed space (sq.m)	Space under construction (sq.m)	Surplus land (sq.m)
MLP Pruszków I	Pruszków	170 695	166 039	3 662	-
MLP Pruszków II	Brwinów	260 000	112 508	22 537	430 760
MLP Poznań	Poznań	86 200	38 865	6 730	90 311
MLP Lublin	Lublin	44 000	27 867	-	19 696
MLP Teresin	Teresin	37 833	37 833	-	-
MLP Gliwice	Szałsza	68 000	-	30 765	78 787
MLP Wrocław	Mirków	63 500	8 705	-	108 516
MLP Czeladź	Czeladź	74 200	-	8 703	145 334
MLP Unna <sup>1)</sup>	Unna	56 700	48 096	-	-
MLP Bucharest <sup>2)</sup>	Bukareszt	97 590	-	-	97 590
<b>Total</b>		<b>958 718</b>	<b>439 913</b>	<b>72 397</b>	<b>970 994</b>

<sup>1)</sup> On 4 April 2017 a new logistic park in Germany (MLP Unna) was established, through the acquisition of real estate by MLP Logistic Park Germany I Sp. z o.o. & Co.KG. The purchased property is of 12.5 ha land with warehouse and office buildings. Buildings are currently rented out by the tenant, and the lease agreement expires on June 30, 2018. Ultimately, the Group intends to build a new warehouse and office facilities on the purchased land and re-commercialize the logistics park.

Together with the contract of sale of the MLP Bieruń logistics park property, MLP Bieruń Sp. z o.o. signed a development agreement under which it committed to complete the construction of the park and its commercialization.

According to the above-mentioned agreement, MLP Bieruń Sp. z o.o. let to rent 11,340 sqm to Auto Partner and completed realization of the above mentioned investment. Details in note 2.1.2.

<sup>2)</sup> On 19 October 2017, MLP Bucharest West SRL, a subsidiary of the Company, signed an agreement to purchase the real property located in Rudeni Village, Chitila Town, Ilfov County in Romania with the total area of 18.8 hectares.

Summary of leasable area owned by the Group in Poland as at 31 December 2017 (sq.m):

Total developed space upon completion (sq.m)	Developed space (sq.m)	Space under construction (sq.m)	Space built and leased (sq.m)	Space under development leased on the basis of signed agreements (sq.m)	Space under development not yet leased (sq.m)
<b>POLAND:</b>					
804 428	391 817	72 397	384 318	69 228	7 499
<b>GERMANY:</b>					
56 700	48 096	-	48 096	-	-
<b>ROMANIA:</b>					
97 590	-	-	-	-	-
<b>958 718</b>	<b>439 913</b>	<b>72 397</b>	<b>432 414</b>	<b>69 228</b>	<b>7 499</b>

**Types of rental space offered:**

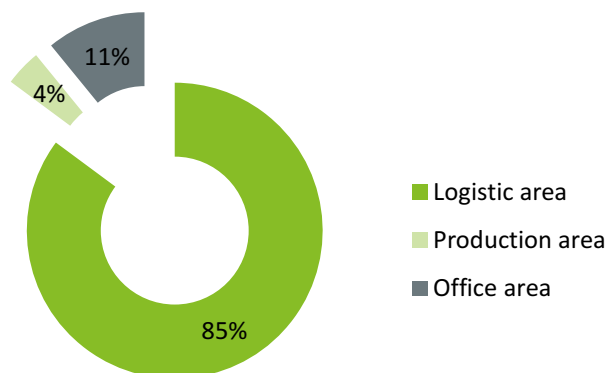
The Company offers its tenants two types of space:

- warehouse space, understood as space designated for storage of goods, and
- production space, i.e. space designated for light industrial production.

Additionally, the Group provides its tenants with office space, in connection with their core business. The final allocation of the gross leasable area is dependent on the requirements of the tenants.

The completed area of the Group's parks at 31 December 2017 is:

**Breakdown of the Group's developed space by type as at 31 December 2017**



The fair value of the Group's property portfolio at 31 December 2017:

Logistics Park	Fair Value in EUR thousand	Fair Value in PLN thousand
MLP Pruszków I	80 655	336 405
MLP Pruszków II	84 251	351 402
MLP Poznań	28 313	118 091
MLP Lublin	17 697	73 812
MLP Teresin	13 830	57 684
MLP Gliwice	18 260	76 161
MLP Wrocław	14 093	58 780
MLP Czeladź	7 180	29 947
MLP Unna	6 000	25 025
MLP Bucharest West	7 050	29 407
<b>Total</b>	<b>277 329</b>	<b>1 156 714</b>

Value of the investment property portfolio presented in the consolidated financial statements at 31 December 2017 is comprised of: (i) fair value of investment property of PLN 1,156,714 thousand, (ii) perpetual usufruct of land of PLN 5,270 thousand and (iii) financial expenditures on new investments of PLN 733 thousand.



## 1. 4 Information about the market, customers and suppliers

The Group's real property portfolio comprises seven logistics parks in Poland: MLP Pruszków I, MLP Pruszków II, MLP Poznań, MLP Lublin, MLP Teresin, MLP Wrocław, MLP Gliwice, and one logistics park under construction – MLP Czeladź. The Group has one logistics park in Germany, MLP Unna. Also, land for development of a new logistics park, MLP Bucharest West, was purchased in Romania.

### 1. 4.1 The structure of the Group's sales

The Group generates revenue from leasing investment properties in the logistics parks located in Poland and, since April 2017, also in Germany. The chart below presents the types of revenue related with lease of real properties.

Revenue from sales in the year ended 31 December	2017	2016	change (%)
<b>Sales to external clients:</b>			
Investment property rental	59 574	52 100	14,3%
Re-invoicing of operating costs	15 974	15 163	5,3%
Re-invoicing of utilities	18 449	14 712	25,4%
Other	2 525	1 718	47,0%
<b>Revenues generated on the grounds of the real estate development agreement</b>	<b>3 789</b>	<b>17 340</b>	<b>-78,1%</b>
<b>Total</b>	<b>100 311</b>	<b>101 033</b>	<b>-0,7%</b>

The structure of the Group's tenants is diversified, and therefore the Group is not exposed to significant risk arising from contracts signed with a single tenant or group of tenants. As at 31 December 2017, the average space rented to one tenant was approximately 6.8 thousand sq.m. (as at 31 December 2016 average space rented to one tenant was 5.1 thousand sq.m).

As at 31 December 2017 about 54% of the total leased space was occupied by the 10 largest tenants in logistics parks belonging to the Group (as at 31 December 2016 it was 57%).

Right with the sale contract of the MLP Bieruń logistics park property, MLP Bieruń Sp. o.o. signed a development agreement under which it committed to complete the construction of the park and its commercialization. According to the above-mentioned agreement, MLP Bieruń Sp. z o.o. led to rent 11,340 sqm area to Auto Partner and finished realisation of the mentioned investment. On account of the above, the Group recognized revenues of PLN 3,789 thousand in H1 2017 (in 2016, revenues of PLN 17,340 thousand were recognized using the cost-ratio method).

#### **1. 4.2 The largest counterparties**

In the reporting period the Group's companies cooperated mainly with suppliers providing the following services:

- construction (cooperation in investment and development projects),
- media delivery,
- consulting - business and legal advisory,
- maintenance of properties,
- security.

In case of construction, general contractors are chosen through the process of internally organized tender procedures. In 2017 the Group cooperated with five construction companies, with purchase turnover exceeding 10% of the Group's revenue, that were acting as general contractors:

- Depenbrock Polska Sp.z o.o. Sp.k.
- Bremer Sp. z o.o.
- Firma Budowlana Antczak Marek Sp z o.o.
- Bln-Biuro Inżynierskie Sp. z o.o.
- Mirbud S.A.

In case of purchase of other services, due to a broad base of suppliers, the Group is not dependent on a single supplier. In 2017 purchase turnover with any of the Group's other suppliers did not exceed 10% of the Group's revenues.

## 2. MLP Group S.A. Capital Group activities

### 2.1 Activities of MLP Group S.A. Capital Group in 2017

In 2017, the Group continued its activities of construction and property management in relation to warehouse and office space. Constructions were carried out mainly in a general contractor system, delivered by specialized external entities.

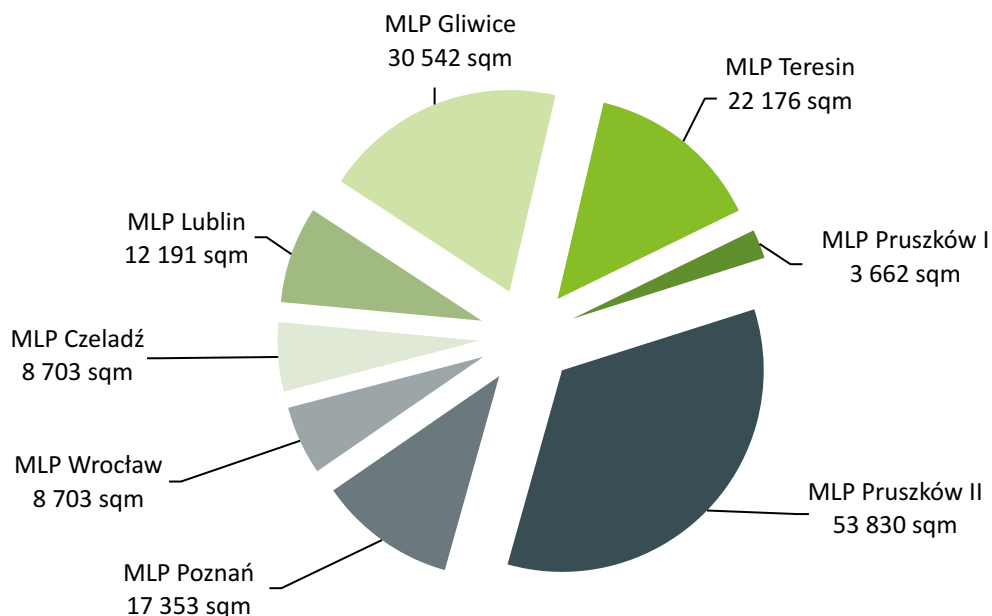
In the analyzed period, the Group simultaneously operated several development projects and rented more than 432 thousand sq.m of existing warehouse and office space. The Company's Management Board reviewed and evaluated:

- current projects in development for the progress of the construction work,
- earned and expected revenue from sales,
- the best possible use of existing land resources of the Group and adjustment of the sale offers to the expectations and demand of the market,
- possibilities to purchase land for new projects to be implemented in subsequent years,
- optimization of financing of the Group's investments.

#### 2.1.1 Investment projects started and completed

In 2017, the Group was executing investment projects of a total area of 128,803 m<sup>2</sup> and held 28,357 m<sup>2</sup> under preparation, for the total of 157,160 m<sup>2</sup>.

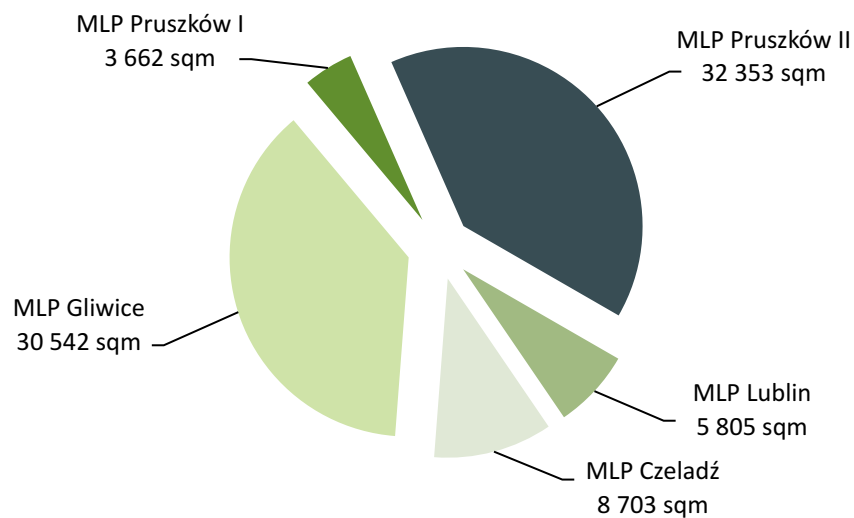
**Area of investment projects underway and under preparation in 2017 (in m<sup>2</sup>)**



From the total surface area of 157,160 m<sup>2</sup> of projects which were performed and in preparation in 2017, 76,095 m<sup>2</sup> of the surface area of investment projects had been started before 2017. On the other hand, in 2017, projects of the total surface area of 81,065 m<sup>2</sup> started to be performed. As at 31 December 2017, the Company, through entities in which it holds shares, has in preparation investment projects of the surface area of 28,357 m<sup>2</sup>: in the MLP Gliwice logistics park - 5,820 m<sup>2</sup>, and in MLP Pruszków II logistics park - 22,537 m<sup>2</sup>. The deadlines for the completion of these projects fall in 2018-2019.

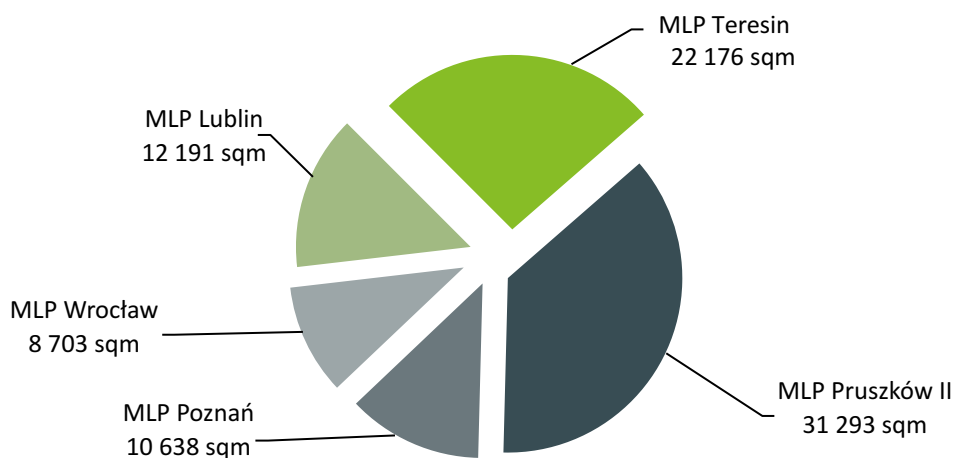
The following chart presents the surface area of initiated investment projects in various parks of the Group:

### Area of investment projects initiated and in preparation in 2017 (sq.m)



Out of the investment projects underway at the end of 2016, the Group completed the execution of 38,486 m<sup>2</sup> in 2017.

### Area of investment projects completed in 2017 (sq.m)



## **2. 1.2 Development projects currently underway and in preparation**

In 2017, the Group executed and had under preparation projects with the total area of 157,160 m<sup>2</sup>. From these, in 2017 the Group completed projects of the total surface area of 85,000 m<sup>2</sup>.

From the beginning of 2018 until the date of publication of this Report, the Group completed execution of projects of the surface area of 28,384 m<sup>2</sup>. Execution of these projects was launched in 2017. In addition, as at the date of publication of this report, there remains a surface area of 43,776 m<sup>2</sup> under lease agreements which is under construction.

On 4 April 2017, MLP Logistic Park Germany I sp. z o.o. & Co KG purchased a land property of the surface area of 12.5 hectares. This is where the MLP Unna logistics park is located, with the buildings currently leased by that company. The current lease agreement expires on 30 June 2018. After that date, the Group intends to demolish the existing structures and have new warehouse buildings built. Currently, the Group is carrying out active commercialization activities.

The Group's strategy is to focus on expanding the existing industrial parks (i.e. construction of warehouses on land belonging to the Group), and development of BTS projects outside existing parks. The Group also actively seeks attractive land for the development of new logistics parks.

The Group realizes BTS projects, i.e. a lease agreement with a prospective tenant must be signed prior to the initiation of the investment process.

Right with the sale contract of the MLP Bieruń logistics park property, MLP Bieruń Sp. o.o. signed a development agreement under which it committed to complete the construction of the park and its commercialization.

As a result of this strategy, the Group has so far leased ca 50% of the target leasable area, i.e. 11,340 m<sup>2</sup>. As at 31 December 2017, construction of the building has been completed. Furthermore, the Group intends to sign agreements with respect to the remaining area in MLP Bieruń (approx. 11,000 m<sup>2</sup>).

Currently, the Group has not entered into any other binding commitments for realization of new investment projects.

## **2. 1.3 Agreements between the shareholders**

***Significant suppliers with whom the Group entered into agreements in 2017 with a total value exceeding 10% of Group's equity.***

In the financial year ended 31 December 2017, the Group has not entered into a trade agreement with a single supplier the total value of which exceeded 10% of the Group equity.

## **2. 1.4 Agreements between the shareholders**

MLP Group S.A. Capital Group has no information on possible agreements between the shareholders of the Company.

Additionally, MLP Group S.A. Capital Group has no information on possible agreements (including those concluded after the balance sheet date), which may result in future changes in the proportion of shares held by existing shareholders.

### **2. 1.5 Cooperation and collaboration agreements**

In 2017 MLP Group S.A. Capital Group did not sign any significant agreements related to the cooperation or collaboration with other entities.

### **2. 1.6 Transactions with related parties**

All transactions with related parties entered into by the Company or its subsidiaries were concluded on market terms.

A description of related party transactions is presented in Note 27 to the Consolidated Financial Statements for the year ended 31 December 2017.

### **2. 1.7 Litigation**

#### ***Proceedings pending before courts, arbitration bodies or public administration bodies***

As at 31 December 2017 there was no individual proceeding in court, arbitration or public administration related to liabilities or receivables of the Company or its subsidiaries, which would exceed 10% of the Group's equity.

As at 31 December 2017 there were no combined proceedings in court, arbitration or public administration related to liabilities or receivables, that together would exceed 10% of the Group's equity.

As at 31 December 2017, the Group was a party to proceedings related to liabilities and receivables of approximately PLN 31.959 thousand, including the total value of proceedings relating to liabilities of approximately PLN 5.486 thousand (out of which PLN 5,406 thousand relates to a court case with OLPIZ Sp. z o.o.). The total value of proceedings concerning receivables amounted to approximately 26.473 thousand (out of which 21.888,7 thousand relates to the court case with Czerwona Torebka S.A.).

Proceedings involving the Group have no material impact on the Group's operations.

## 2. 2 Development of the MLP Group S.A. Capital Group, risk factors

### 2. 2.1 Key risk factors relevant to the development of the Group

The Group's operations are exposed to the following risks arising from financial instruments held by the Group:

- Credit risk,
- Liquidity risk,
- Market risk.

The Management Board is responsible for the establishment and oversight of the Group's risk management, including the identification and analysis of risks to which the Group is exposed, the terms of their respective limits and controls and for monitoring risks and adherence to limits of the respective risks. Rules and risk management procedures are regularly reviewed to reflect changes in the market conditions and changes in the Group's activities.

#### **Credit risk**

Credit risk is a risk of financial loss to the Company and companies from the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from debt instruments. The objective of risk management is to maintain, in terms of quality and value, a stable and sustainable portfolio of loans granted and other investments in debt instruments, achieved by having a policy of setting credit limits for contract parties.

#### **Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial instrument. The Group's approach to managing liquidity is to ensure, to the extent possible, that it will 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. For this purpose, the Group monitors its cash flows, maintains lines of credit and keeps sufficient cash to cover anticipated operating expenses and expected cash outflows for current financial liabilities, and maintains anticipated liquidity ratios.

#### **Market risk**

Market risk is the risk that changes in market prices, such as exchange rates, interest rates and equity prices will affect the Group's income or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing return on investment. The activities of the Group in this respect include applying hedge accounting to minimize volatility in the profit or loss for the current period.

##### ◦ **Foreign exchange risk**

The consolidated financial statements of the Group are prepared in PLN, which is the functional currency of the Group. The majority of the Group's revenue from rent is denominated in EUR and occasionally in PLN and USD. A portion of the Group's costs, such as certain construction costs, labor costs and wages are denominated in PLN.

In order to hedge currency risk (i.e. Currency hedging), the Group's companies mainly use natural hedging by obtaining debt financing in EUR. To reduce the volatility of return of investment caused by exchange rate fluctuations, the Group companies may also conclude hedging contracts against such risks, including the use of derivatives, and entering into agreements with contractors (investment agreement with general constructor), which are denominated in EUR. Due to the short currency position of the Group, the depreciation of the Polish currency against the EUR adversely affects the Group's performance, resulting in increased debt service costs.

◦ **Interest rate risk**

The Group's credit agreements are based on floating interest rates. The level of interest rates is highly dependent on many factors, including governmental monetary policies and both domestic and international economic and political conditions, and other factors beyond the Group's control. Changes in interest rates may increase the financing cost of the Group with respect to existing loans, and thus affect its profitability. A need to hedge the risk of interest rates is considered by the Group in each case. In order to reduce the impact of the interest rate risk, the companies enter into Interest Rate SWAP transactions with the banks financing their activities. Changes in interest rates may have a material adverse effect on the financial position and results of the Group.

In addition to the abovementioned risks, the Group's activities are also exposed to the following risk factors:

**Risks associated with the Group's dependence on the macroeconomic situation**

The development of the commercial real estate market, where the Group operates, is dependent on the changes taking place in the construction and real estate sector, trends in the sectors of: manufacturing, commerce, industry, services, transport and the development of the economy, which is influenced by many macroeconomic factors, such as: economic growth, inflation, interest rates, the situation on the labor market and the value of foreign direct investment. The Group's operations are dependent indirectly on changes in the world economy. The Group's business is affected in particular by: the level of GDP, the inflation rate, exchange rates, interest rates, the unemployment rate, the average wage, fiscal policy and monetary policy. The pace of growth in the domestic economy, and thus also, on the business and results of operations may be affected by a downturn and the slowdown of the world economy. Adverse changes in the macroeconomic situation in Poland and other countries' economic monetary policy are likely to adversely affect the Group's financial results materially and the ability to implement its plans.

**Risks associated with factors specific to the real estate sector**

The Group is exposed to risks related to: real estate development, acquisition, ownership and management of commercial real estate.

Revenue and value of the property held by the Group may be affected by numerous factors, including: (i) changes in laws and administrative regulations concerning real estate, including obtaining of licenses or permits, determining zoning, taxes and other public charges, (ii) the cyclical changes in the real estate market in which the Group operates; (iii) the Group's ability to obtain appropriate services for construction, management, maintenance, and insurance services. Although the Group undertakes certain actions to protect its business from the negative impact of these risks, it is impossible to eliminate them entirely. Occurrence of any of these risks will have a significant negative impact on the Group's business, financial condition, results and prospects.



### **Risk associated with the downturn in the real estate market and the general deterioration of the economic situation**

The downturn in the real estate market may have a negative impact on the Group's performance in terms of profits from rental of warehouse space. In case of tenant's default to meet its obligation or in case of absence of tenants, the Group will not receive rental income while incurring the costs associated with the property. These costs may include legal costs and valuation expenses, maintenance costs, insurance and property taxes. The level of rent and the market price of the property are, in principle, dependent on the economic situation. Consequently, the decline in market prices may result in the determination of other than expected rent levels and lead to losses in relation to the respective projects or may result in a need to find an alternative use of land purchased for investment. The occurrence of these events could have a material adverse effect on the Group's business, financial condition and results.

### **Insurance risk**

The Group's properties may be destroyed or damaged due to many foreseeable or unforeseeable circumstances. It is also possible that third parties may suffer damages as a result of an event, which the Group is responsible for. Due to the scope of insurance coverage currently held by the Group, there is a risk that such damages or claims will not be covered by insurance or that they will only be partially covered by insurance. Some risks are not subject to insurance, in the case of other types of risks insurance premium costs are disproportionately high in relation to risk occurrence likelihood. The Group's insurance coverage may not protect the Group against all losses that the Group may incur in connection with its activities, and some types of insurance may not be available on commercially reasonable terms or at all. Accordingly, the Group's insurance coverage may not be sufficient to fully compensate for losses incurred in connection with its real estate.

### **Risks associated with the development activities of the Group**

The development of the Group's business is related to the risks arising from the nature of the process of construction of warehouses and manufacturing centers. During the construction of warehouses and manufacturing centers there may occur, not due to the developer, delays or technical problems resulting in a failure to meet deadlines and to obtain appropriate permits required by law or administrative approvals, which may have an adverse effect on the business, financial position and results of the Group.

### **Risks associated with a failure to finalize profitable investments and the nature of property development activities of the Group:**

The Group's ability to start and complete development, reconstruction or modernization of its property depends on a number of factors, some of which are beyond its control. These factors include, in particular, the Group's ability to receive all of the necessary administrative decisions, obtaining external financing on satisfactory terms or at all, the involvement of reliable contractors and obtaining appropriate tenants.

The following factors, over which the Group has limited or no control, that may result in a delay or otherwise adversely affect the development or modernization of the Group's properties include:

- increase in the cost of materials, labor costs or other expenses that may cause the completion of a project to be unprofitable;
- actions taken by public authorities and local governments resulting in unexpected changes in the land use planning and development plan;
- disadvantages or limitations on legal title to land or buildings acquired by the Group or defects, restrictions or conditions related to management decisions on land owned by the Group;

- changes in applicable laws, regulations or standards, which come into force after the start of the planning or construction of the project, resulting in the Group incurring additional costs or causing delays in the project or its interpretation or application;
- violations of building standards, incorrect methods of construction or faulty construction materials;
- industrial accidents, previously undisclosed existing soil contamination and potential liability related to environmental regulations and other applicable laws, for example, related to archaeological finds, un-exploded bombs or building materials that are deemed harmful to health;
- forces of nature, such as bad weather, earthquakes and floods, which can damage or delay the completion of projects;
- acts of terrorism or riot, revolts, strikes or civil unrest.

Investment projects of the Group may be carried out only if the land on which they are carried out is provided with appropriate technical infrastructure as required by law, (e.g. access to internal roads, the possibility of connections to the utilities or certain procedures for fire protection and adequate facilities to ensure this protection). The relevant authorities may require the Group to create additional infrastructure required by law in the performance of its construction work, before making appropriate administrative decisions. Such additional work can significantly affect the cost of construction.

In addition, the implementation of some projects may become uneconomic or impracticable for reasons that are beyond the Group's control, such as a slowdown in the real estate market. The Group may not be able to complete these projects on time, within budget or at all, due to any of the above or other factors, which may increase the costs, delay the implementation of the project or cause the project to be abandoned.

#### **Risk associated with general contractors**

In a significant number of cases, the Group commissions their projects to general contractors or other third parties. The successful completion of construction projects depends on the ability of the Group to employ general contractors who carry out projects in accordance with established standards of quality and safety, at commercially reasonable terms, within the agreed deadlines and within the approved budget. Inability to employ general contractors on commercially reasonable terms and the failure of general contractors to meet accepted standards of quality and safety, or non-completion of construction or repairs on time or within the agreed budget may increase the cost of the project, delays in its completion, as well as result in claims against the Group. In addition, the above-mentioned events may adversely affect the Group's image and the ability to sell completed projects.

The financial strength and liquidity of the general contractors of the Group may not be sufficient in the event of a severe economic downturn in the property market, which in turn could lead to their bankruptcy, adversely affecting the execution of the Group's strategy. Any security usually established by general contractors in order to secure the performance of obligations under the respective agreements with the Group, may not cover the total costs and damages incurred by the Group in these circumstances.

The Group's dependency on general contractors also exposes the Group to all risks associated with poor quality of work of such general contractors, their subcontractors and employees and with construction flaws. In particular, the Group may incur losses due to the need to engage other contractors to correct defective work done or because of the need to pay compensation to people who have suffered losses as a result of defective work carried out. In addition, there is a risk that such losses or expenses will not be covered by insurers of the Group, by the contractor or by the appropriate subcontractor.

### **Risks associated with obtaining administrative decisions:**

As part of its activities and in the course of management of its assets, the Group is obligated to obtain multiple licenses, approvals or other decisions of public administration bodies, in particular for the execution construction and use of its property. The Group can not guarantee that such permits, consents or other decisions in relation to the existing property or new investments will be obtained in time or that they will be obtained at all, or that currently held or acquired in the future permits, consent or other decisions will not be withdrawn or that their term of validity will not be extended. In addition, public administrations may issue a decision based on the fulfilment of certain additional terms and conditions (including, for example ensuring adequate infrastructure) or impose on the Group in such decisions additional conditions and obligations, which may involve additional costs and the extension of the procedures.

In addition, the Group may seek changes to certain projects or facilities of the Group, as well as the change in use of the property, so as to utilize them more effectively and in accordance with the current trends in the real estate market. The introduction of such changes may not be possible due to the difficulty in obtaining or changing required permits, approvals and decisions, in particular in the case of real estate included in the register of monuments.

In addition, social organizations and organizations dealing with the protection of the environment, as well as adjacent property owners and local residents can take action to prevent the Group from obtaining the required permits, approvals or other decisions, including participation in administrative and judicial proceedings involving the Group, challenging decisions, regulations and rulings issued in the course of such proceedings, as well as disseminating negative and defamatory information about the Group and its investments. These actions may, in particular, significantly extend the realization of investment activities by the Group, as well as result in additional costs incurred by the Group in connection with the ongoing investments.

### **Risk connected with land acquisition**

The efficiency and scale of the Group's operations depend among others on the supply of appropriate real properties for development, prices of such real properties and their legal status. The capacity to search for and acquire appropriate real estates at competitive prices and to obtain financing on appropriate terms is the condition of an efficient implementation of an adopted strategy and achievement of the planned results. Opportunities of acquisition of land for investments in attractive locations depend on the Group's efficiency, on the legal aspects of the Group's operations and the objective factors related with the market environment (i.e. strong competition in the land market, long time necessary to change the land intended use caused by delays in adoption of the local zoning plans or lack of such plans, as well as limited supply of areas equipped with appropriate infrastructure). The Group has a team of persons dealing with searching for appropriate land, legal analysis and prospect analysis of such land, and carrying out the administrative proceedings, and cooperates with a group of reputable market and legal advisors.

Other factors which indirectly affect the prices of land include, inter alia, demand for lease of warehouse, office and production space, as well as the macroeconomic conditions, availability of financing, supply of warehouse and office space in a given area, and the tenants' expectations regarding quality standard and location. The Group has been taking efforts to efficiently respond to macroeconomic changes, among others through performance of investments in stages.

Growth of land prices may have an adverse impact on the competitiveness and profitability of the Group's new investments on land purchased in the future. This is connected with the fact that costs of land acquisition represent an important factor affecting a given project's profitability. On the other hand, an increase in prices of land may translate into an improved competitiveness of the Group's investments carried out on land which was purchased earlier, at lower cost. The Group possesses a land bank, with projects of a total area of approx. 90.4 hectares, with a view to mitigating the impact of risk of land price growth. A decrease of land prices may lead to a decrease of value of the investment real properties, as well as affect competitiveness and profitability of some of the Group's investment projects carried out on land held in the Group's land bank.

## 2. 2.2 Business prospects

The strategic objective of the Group is to constantly increase the warehouse space held in the Polish market and to continue operations abroad. In 2018, the MLP Group Management Board plans to acquire two new plots of land in Poland to establish new logistics parks and develop the existing ones. Outside Poland, the MLP Group's priority is the German market, where the Group intends to develop its Unna park and plans to acquire two new projects: in Mönchengladbach in the Ruhr Area and in the south of Germany. Apart from the German market, the Group also plans to expand its operations in Romania through launching the construction of new warehouse facilities in the park in Bucharest/Chitila.

The strategic objective of subsidiaries is to construct buildings in the current land bank and in the BTS system outside the current parks for resale. At the same time, the Management Board of the MLP Group aims to increase investments in buildings built on a speculative basis, which is connected with a growing demand for warehouse space in Poland. The GDP growth, as well as the increased significance of Poland as a center for services provided to e-commerce companies for the needs of Western Europe are important factors stimulating the demand. Furthermore, low interest rates and the lowest rents in Europe strengthen Poland as one of the most attractive countries in Europe. Because the overall condition of the economy and the trends in the warehousing market are strongly correlated, we can expect that this will be reflected in the demand for warehouses.

### Warehouse space market in 2017

- **Poland**

Last year was another period after which we can say that Poland's warehouse space market is very robust. In 2017, the total space leased under new agreements and expansions exceeded 3.1 million m<sup>2</sup>, nearly 1 million m<sup>2</sup> more than the year before.

Thanks to excellent locations, developed infrastructure and attractive rents, Central Poland was the hottest point on the map of Poland in 2017. 30% of net demand focuses in this region.

Developers make efforts to satisfy each requirement. So, the growing demand induces developers to make further investments. In 2017, nearly 2.3 million m<sup>2</sup> of space was handed over for use, while further 1.17 million m<sup>2</sup> is being built, of which nearly one third is built speculatively, or without binding agreements. Over the past 5 years, warehouse space resources have doubled, reaching the surface area of 13.5 million m<sup>2</sup> at the end of 2017.

The vacancy rate was 6% at the end of last year. The most vacant space is in Kraków – 16.6%. The lowest rate of instantly available space is in the Central Poland – 1.4%.

In 2018, we expect a similar growth rate in the Polish market.

## **Germany**

Germany remains the largest warehouse space market in Europe. Germany remains the largest warehouse space market in Europe and the volume of transactions conducted there in 2017 reached the highest historical levels of 6.5 million m<sup>2</sup>. That was 15% more than the average of 2017-2016. From the above, over 2 million m<sup>2</sup> was leased in the five biggest warehouse space regions in Germany, namely: Berlin, Düsseldorf, Frankfurt, Hamburg and Munich. The volume of leased properties has also increased due to strong demand from manufacturers, especially those from the automotive sector.

Rents in 2017 remained at a stable level and in these markets were in the range of EUR 5-6.75 per m<sup>2</sup> on a monthly basis.

Taking into account the good development prospects of the German economy and the continued high level of demand for commercial space, a lease level similar to the one recorded last year is expected to be achieved in 2018.

## **Romania**

In Romania, the total warehouse and logistics space contracted for lease was 515 thousand m<sup>2</sup> in 2017. Out of this figure, newly supplied space was 450 thousand m<sup>2</sup>, and this was Romania's historic high. As a result, the total industrial and logistics resources exceeded 3 million m<sup>2</sup>.

The most attractive region in the previous year continued to be the area of Bucharest, with a 65% share of delivered ready-made space. Next positions were occupied by Timisoara with a 20% share and Cluj (10%).

On the Romanian market, favorable economic environment persists with a steady increase in income and consumption. In 2018, warehouse space resources are expected to increase by approx. 15%. This will mean that over 500 thousand m<sup>2</sup> of new warehouse space will be completed and put into operation. Bucharest will continue to be in the focus of interest of developers, who should put into operation over 300 thousand m<sup>2</sup> of space in that region.

The last year's record-high market activity, on the part of both tenants and developers, allows for looking to 2018 with optimism.

### 3. Capital Group's financial position, financial resources management

#### 3.1 Key economic and financial data disclosed in the consolidated financial statements of the Group for the year 2017

##### 3.1.1 Selected financial data from the consolidated statement of financial position

Structure of the consolidated statement of financial position of the Group (selected, significant items):

<i>as at</i>	31 December 2017	Share %	31 December 2016	Share %	Change %
<b>ASSETS</b>	<b>1 358 350</b>	<b>100%</b>	<b>1 177 981</b>	<b>100%</b>	<b>15%</b>
<b>Non-current assets</b>	<b>1 240 954</b>	<b>91%</b>	<b>1 042 700</b>	<b>89%</b>	<b>19%</b>
Including:					
Investment property	1 162 880	86%	968 524	82%	20%
Other long-term investments	68 594	6%	65 964	7%	4%
<b>Current Assets</b>	<b>117 396</b>	<b>9%</b>	<b>135 281</b>	<b>11%</b>	<b>-13%</b>
Including:					
Short-term investments	22 139	2%	22 884	2%	-3%
Trade receivables and other	25 926	2%	42 481	4%	-39%
Other short-term investments	3 134	0%	6 984	1%	-55%
Cash and cash equivalents	64 827	5%	61 694	5%	5%

<i>as at</i>	31 December 2017	Share %	31 December 2016	Share %	Change %
<b>EQUITY AND LIABILITIES</b>	<b>1 358 350</b>	<b>100%</b>	<b>1 177 981</b>	<b>100%</b>	<b>15%</b>
<b>Equity total*</b>	<b>726 651</b>	<b>53%</b>	<b>675 726</b>	<b>57%</b>	<b>8%</b>
<b>Long-term liabilities</b>	<b>569 226</b>	<b>42%</b>	<b>435 140</b>	<b>37%</b>	<b>31%</b>
Including:					
Credits, loans, other debt instruments and other long-term liabilities	468 973	35%	341 362	29%	37%
<b>Short-term liabilities</b>	<b>62 473</b>	<b>5%</b>	<b>67 115</b>	<b>6%</b>	<b>-7%</b>
Including:					
Credits, loans and other debt instruments	21 278	2%	13 810	1%	54%
Trade and other liabilities	37 960	3%	43 965	4%	-14%

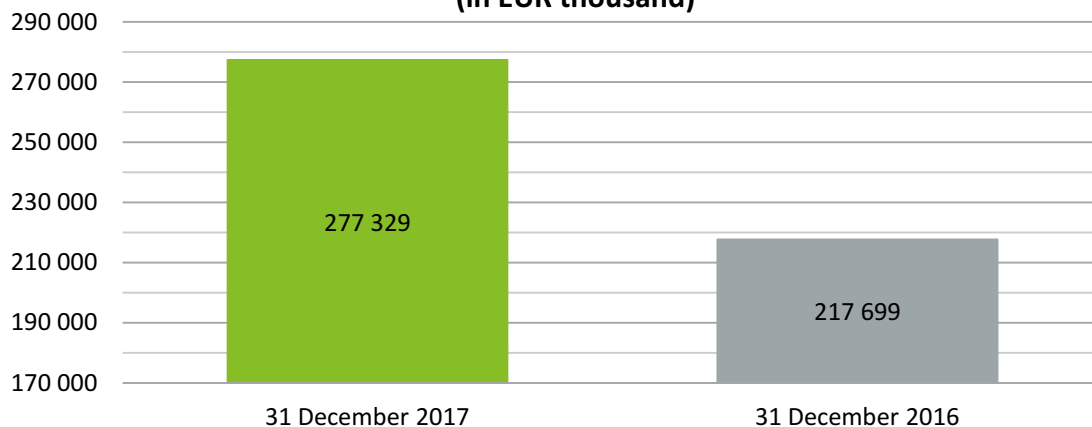
As at 31 December 2017 investment properties, including logistics parks belonging to the Group, constituted the main part of the Group's assets, i.e. 86 % of total assets. The main items of equity and liabilities were: credits, loans, other debt instruments, equity and trade and other liabilities, which as at 31 December 2017 respectively accounted for: equity 53%, liabilities from credits, loans, other debt instruments and other liabilities 35%. Increase of liabilities comprising credits, loans, other debt instruments and other long term liabilities resulted mainly from the fact that in May 2017 the Group issued 20,000 bonds for EUR 1,000 (PLN 84,310 thousand) and higher credit liabilities by 43,866 thousand PLN

### Investment property

	<b>31 December as at 2017</b>	<b>31 December 2017</b>	<b>31 December 2016</b>	<b>31 December 2016</b>	<b>Change</b>
	[tys. EUR]	[tys. PLN]	[tys. EUR]	[tys. PLN]	[tys. EUR]
MLP Pruszków I	80 655	336 405	80 210	354 848	445
MLP Pruszków II	84 251	351 402	73 506	325 191	10 745
MLP Poznań	28 313	118 091	24 963	110 436	3 350
MLP Lublin	17 697	73 812	13 220	58 485	4 477
MLP Teresin	13 830	57 684	8 380	37 073	5 450
MLP Gliwice	18 260	76 161	4 040	17 873	14 220
MLP Wrocław	14 093	58 780	7 980	35 304	6 113
MLP Czeladź	7 180	29 947	5 400	23 890	1 780
MLP Unna	6 000	25 025	-	-	6 000
MLP Bucharest West	7 050	29 407	-	-	7 050
<b>Value of investment property according to valuations</b>	<b>277 329</b>	<b>1 156 714</b>	<b>217 699</b>	<b>963 100</b>	<b>59 630</b>

As follows from appraisals drafted as at 31 December 2017, the total value of the Group's portfolio of real estates is EUR 277,329 thousand (PLN 1,156,714 thousand), i.e. it increased by EUR 59,630 thousand as compared to the value as at 31 December 2016. The largest impact on this change was exerted by the acquisition of a 12.5 ha land property in Germany making up the MLP Unna park, purchase of land in Romania, completion of projects and delivery of 85 thousand m<sup>2</sup> of new space to tenants in 2017, and launch of a new investment projects in the MLP Pruszków II, MLP Lublin, MLP Czeladź and MLP Gliwice parks. In the logistics parks owned by the Group as at 31 December 2017, the total leased area increased by 130,280 thousand m<sup>2</sup> (including the acquired MLP Unna logistics park of 48,096 m<sup>2</sup>) as compared to 2016.

### The value of the investment properties (in EUR thousand)



#### Other Investments

	31 December <i>as at</i> 2017	31 December 2016
Other long-term investments	12 742	8 567
Long-term loans	55 852	57 397
Short-term loans	22 139	22 884
Other short-term investments	3 134	6 984
<b>Total other investments</b>	<b>93 867</b>	<b>95 832</b>

As at 31 December 2017, the amount of receivables under loans granted decreased by PLN 2,290 thousand comparing to the end of 2016.

Other long-term investments comprise restricted cash in long term in the amount of PLN 12,742 thousand. The amount contains: PLN 7,630 thousand, which was separated in accordance with the credit agreements to secure payment of principal and interest instalments, PLN 379 thousand of deposits retained from tenants and other deposits of PLN 4,719 thousand.

The Group has short-term restricted cash of PLN 2,716 thousand. Restricted cash consists of PLN 2,111 thousand of short-term deposit and short-term part of cash separated in accordance with credit agreements of PLN 605 thousand.

Other short-term investments also comprise of funds on Escrow account (PLN 418 thousand), retained in connection with the sale of investment properties. These funds will be released when the Group's obligations under the contract for sale of investment properties are met. The Group expects that these obligations will be fulfilled within 12 months of the end of the reporting period.



## Cash

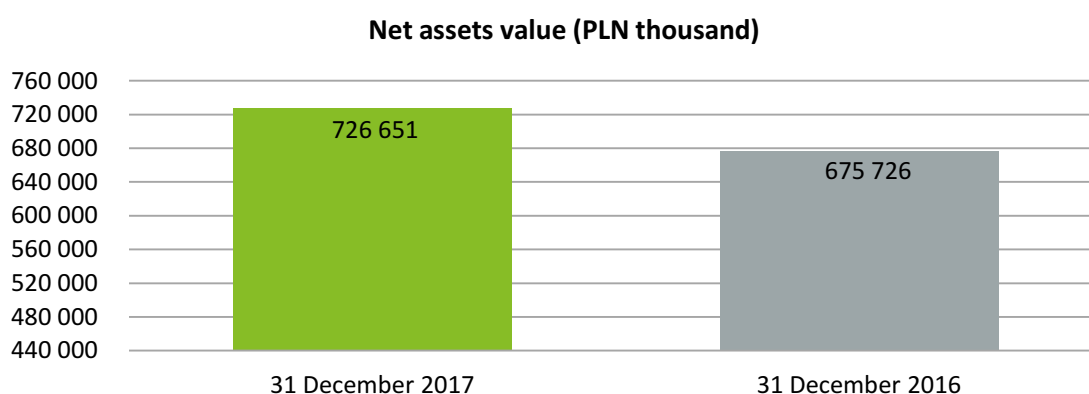
	<i>as at</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
Cash on hand		64	61
Cash in bank		59 069	20 153
Short-term deposits		5 694	41 480
<b>Cash and cash equivalents presented in the consolidated statement of financial position</b>		<b>64 827</b>	<b>61 694</b>
<b>Cash and cash equivalents, presented in the consolidated statement of cash flows</b>		<b>64 827</b>	<b>61 694</b>

Cash and cash equivalents in the annual consolidated statement of financial position includes cash in hand and bank deposits with an initial maturity of up to 3 months.

As at 31 December 2017, the balance of cash was PLN 64,827 thousand, an increase by PLN 3,133 thousand as compared to the figure as at 31 December 2016. In 2017, the company acquired funds mainly in the form of proceeds from a bond issue in the amount of PLN 84,310 thousand, and inflows from operating activity in the amount of PLN 55,034 thousand. These were partly offset with expenditure connected with the purchase of the investment property in Germany (MLP Unna) and construction of new facilities (PLN 178,474 thousand).

## Equity

### Net assets value (NAV)



Net assets value as at 31 December 2017 amounted to PLN 726,651 thousand, and increased by PLN 50,925 thousand (7,54%).

The increase is related mainly to the net profit for the first half of 2017 and valuation of the hedging instruments recognized in other comprehensive income.

### Share capital

	<i>na dzień</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
Series A shares		11 440 000	11 440 000
Series B shares		3 654 379	3 654 379
Series C shares		3 018 876	3 018 876
<b>Total</b>		<b>18 113 255</b>	<b>18 113 255</b>
Par value of 1 share		0,25 zł	0,25 zł

As at 31 December 2017, share capital of the Parent Company amounted to PLN 4,528,313.75 and was divided into 18,113,255 shares entitling shareholders to 18,113,225 votes at the General Meeting. All shares have a par value of PLN 0.25 and have been fully paid.

**Credits, loans, other debt instruments and other liabilities**

	31 December <i>as at</i>	31 December 2017	31 December 2016
Credits secured on the Group's assets		309 231	265 750
Bonds		83 418	-
Loan liabilities		55 990	61 318
<b>Total long-term credits, loans and other debt instruments</b>		<b>448 639</b>	<b>327 068</b>
Finance lease liabilities		5 270	5 259
Liabilities concerning SWAP transactions		2 219	2 229
Investment guarantees, guarantees from tenants and other		12 845	6 789
Liabilities concerning other transactions		-	17
<b>Total other long-term liabilities</b>		<b>20 334</b>	<b>14 294</b>
Short-term credits and short term part of credits secured on the Group's assets		20 516	13 230
Bonds		355	-
Loan liabilities		407	580
Liabilities concerning SWAP transactions		43	6 196
<b>Total short-term liabilities</b>		<b>21 321</b>	<b>20 006</b>
<b>Credits, loans, other debt instruments and other liabilities</b>		<b>490 294</b>	<b>361 368</b>

Credits, loans and other debt instruments constitute a significant part of the Group's equity and liabilities. Credits and loans finance the expansion of the Group's logistic parks.

The issue by the Group of 20,000 bonds of EUR 1,000 each (PLN 83,418 thousand, if translated using the NBP average exchange rate as at 31 December 2017) had the most significant impact on the increase of value of liabilities under loans, borrowings and other debt instruments. The value of loans received also increased. In 2017, a loan of the subsidiary, MLP Wrocław Sp. z o.o., and further tranches of the loan of the subsidiary MLP Pruszków III Sp. z o.o., MLP Poznań II Sp. z o.o., MLP Lublin Sp. z o.o. and MLP Teresin Sp. z o.o., were drawn down. This increase was partly offset by the repayment of loans in accordance with the repayment schedules and a decrease of value of liabilities under borrowings (partial repayment of borrowings to Fenix Polska Sp. z o.o.).

### 3. 1.2 Selected financial data from the consolidated statement of profit or loss

Consolidated statement of profit or loss of the MLP Group S.A. Capital Group for the year ended 31 December 2017 compared to 2016:

<i>for the year ended 31 December</i>	<b>2017</b>	<b>% sales</b>	<b>2016</b>	<b>% sales</b>	<b>Change %</b>
Revenues	100 311	100%	101 033	100%	-1%
<i>including:</i>					
<i>Revenues obtained under a development contract concluded by MLP Bieruń Sp. z o.o.</i>	3 789	4%	17 340	17%	-
Other operating income	258	0%	1 276	1%	-80%
Selling and administrative expenses	(52 533)	52%	(54 675)	54%	-4%
<i>including:</i>					
<i>Costs related to development contract concluded by MLP Bieruń Sp. z o.o.</i>	(2 824)	3%	(12 822)	-13%	-
Other operating costs	(1 482)	1%	(3 586)	4%	-59%
<b>Operating profit before gain on revaluation of investment property</b>	<b>46 554</b>	<b>46%</b>	<b>44 048</b>	<b>44%</b>	<b>6%</b>
Gain/(Loss) on revaluation of investment property	8 602	9%	58 304	58%	-85%
<b>Operating profit</b>	<b>55 156</b>	<b>55%</b>	<b>102 352</b>	<b>101%</b>	<b>-46%</b>
Net financial income/(cost)	1 071	-1%	(15 253)	15%	-107%
<b>Profit before taxation</b>	<b>56 227</b>	<b>56%</b>	<b>87 099</b>	<b>86%</b>	<b>-35%</b>
Corporate income tax	(8 940)	9%	(20 684)	20%	-57%
<b>Net profit</b>	<b>47 287</b>	<b>47%</b>	<b>66 415</b>	<b>66%</b>	<b>-29%</b>

<i>for the year ended 31 December</i>	<b>2017</b>	<b>2016</b>
<b>Earnings per share:</b>		
- Basic (in PLN) earnings for the year attributable to the ordinary shareholders of the Parent Company	2,61	3,67
- Diluted (in PLN) earnings for the year attributable to the ordinary shareholders of the Parent Company	2,61	3,67

	<i>for the year ended 31 December</i>	<b>2017</b>	<b>2016</b>	<b>Change %</b>
Revenue from rental of properties		59 574	52 100	14,3%
Revenues from re-invoicing of operating cost		15 974	15 163	5,3%
Reinvoicing of utilities		18 449	14 712	25,4%
Other revenues		2 525	1 718	47,0%
Revenues obtained under a development contract concluded by MLP Bieruń Sp. z o.o.		3 789	17 340	-78,1%
<b>Total Revenues</b>		<b>100 311</b>	<b>101 033</b>	<b>-0,7%</b>

Rental revenues are the main source of the Group's core business revenues. In 2017, such revenues amounted to PLN 59,574 thousand and increased by 14.3% in comparison with the corresponding period of the previous year. As at the end of 2017, the area leased by the Group was 432,414 m<sup>2</sup>, or 141,501 m<sup>2</sup> more than at the end of 2016. Most of the space was built and delivered in H2 2017, which nevertheless has not yet contributed in any material way to higher rental revenues. During this period, the lease agreements providing for indexation of lease rates with reference to MUICP index which was positive in the last several years were extended, while the rates currently in effect do not take this factor into account.

Selling and administrative expenses in 2017 amounted to PLN 52,533 thousand and decreased by PLN 2,142 thousand in comparison to 2016.

In 2016, the Group recognized expenses connected with the developer agreement, which was completed in April 2017. Most expenses were borne in 2016 and the 2017 portion was much lower. In 2017, the costs of property maintenance increased as a result of growth of volume of buildings owned by the Group and leased.

Due to the nature of the Group's operations, the largest position of selling and administrative expenses were costs of external services, materials and energy consumption, and tax charges, which in 2017 amounted to PLN 19,674 thousand, PLN 14,845 thousand, and PLN 11,190 thousand respectively - these costs are closely correlated to the volume of space in warehouses and manufacturing parks owned by the Group and their development and related maintenance costs.

In 2017, the Group's net financial income grew (with respect to income PLN 1,071 thousand) as compared to the corresponding period of the previous year (with respect to expenses PLN 15,253 thousand). This change was due mainly to foreign exchange differences.

In 2017, the Group recognized a positive result on revaluation of investment properties in the amount of PLN 8,602 thousand (as compared to PLN 58,304 thousand in the corresponding period of 2016). The change was caused primarily by the 5.7%-decrease of the EUR exchange rate in 2017 which was partly offset thanks to the project completion and delivery of 85,000 m<sup>2</sup> in 2017, acquisition of land in Germany and Romania and launch of new investment projects into the MLP parks of the total area of 52,708 m<sup>2</sup>.

### 3. 1.3 Selected information from the consolidated statement of cash flows

	<i>for the year ended 31 December</i>	2017	2016
Net cash flows from operating activities		55 034	21 171
Net cash flows from investing activities		(183 513)	(55 583)
Net cash flows from financing activities		133 938	(26 872)
<b>Total net cash flow</b>		<b>5 459</b>	<b>(61 284)</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>61 694</b>	<b>122 978</b>
Impact of changes due to foreign exchange differences in cash and cash equivalents		(2 326)	-
<b>Cash and cash equivalents at the end of the period</b>		<b>64 827</b>	<b>61 694</b>

In 2017, the Group reported positive cash flows on investing activity in the amount of PLN 55,034 thousand, i.e. an increase by PLN 33,863 as compared to 2016. This was due mostly to the proceeds from the developer agreement executed by MLP Bieruń Sp. z o.o. and related with the contract performed for the tenant, i.e. Auto Partner S.A. (PLN 21,129 thousand). The delivery of new warehouses also contributed to the growth of the Group's inflows from operating activity.

In 2017, the Group generated negative cash flows on investing activity in the amount of PLN 183,513 thousand. In 2016 negative cash flows on investing activity amounted to PLN 55,583 thousand. Such increase of negative cash flows on investing activity was connected with the Group's investment program. The Group bore the highest outlays in connection with the expansion of its logistics parks in Poland, as well as purchase of land in Germany and Romania.

In 2017, the Group reported positive cash flows on investing activity in the amount of PLN 139,938 thousand. The surplus of financial income over the expenses is mainly a result of the Group's issue of 20,000 bonds of value of EUR 1,000 each. The Group received also funds under the loans granted to finance its investments.

### 3. 2 Management's approach to published forecasts

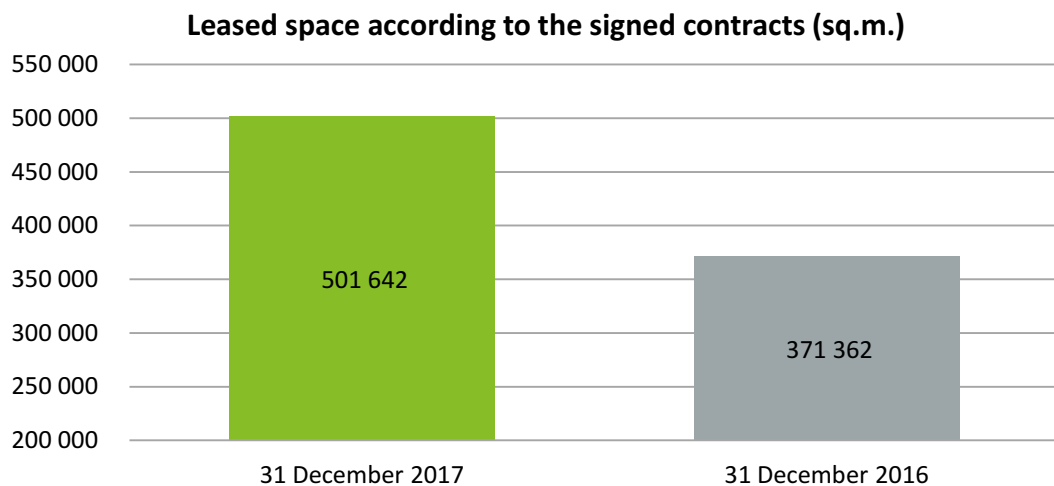
MLP Group S.A. Capital Group as well as MLP Group S.A. has not published forecasts of consolidated or individual financial results for 2017.

### 3.3 Group's financial management

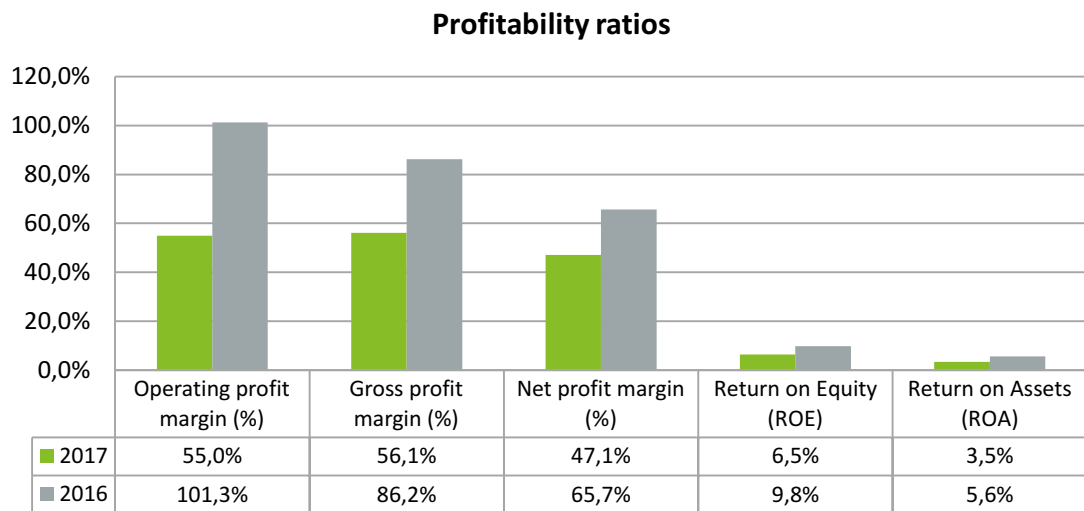
Management of financial resources of the MLP Group S.A. Capital Group in 2017, in connection with the ongoing investment projects for the development of warehouse and office space, focused primarily on acquiring and structuring appropriate financing sources, as well as maintaining safe liquidity ratios. The Management Board conducts regular analysis of the existing and future optimal financing structure in order to achieve the ratios and financial results while ensuring the liquidity of the Group and the wider financial security.

According to the Management Board, the Group's financial position and its performance as at 31 December 2017 proves a stable situation of the Group. This is achieved by the established position of the Group on the warehouse market, the accumulation of experience and operational capacity both in terms of implementation of investment projects as well as in the process of renting the facilities. The financial position and the performance of the Group is described by liquidity and debt ratios further in the report.

Taking into account the situation in the real estate market in Poland in recent years, the financial results achieved by the Group in 2017 are to be considered positive. As at 31 December 2017, the Group leased a total area of 501,642 sq.m, in comparison to 371,362 sq.m as at 31 December 2016.



### 3. 3.1 Profitability ratios



Profitability analysis was based on the below defined indicators:

- **operating profit margin:** profit (loss) from operating activities / revenue;
- **gross profit margin:** profit (loss) before tax / revenue;
- **net profit margin:** net profit (loss) / revenue;
- **return on equity (ROE):** net profit (loss) / equity;
- **return on assets (ROA):** net profit (loss) / total assets.

In 2017, the operating profit margin ratio decreased in comparison with the 2016 level, due chiefly to a 5.7% decrease of EUR exchange rate in 2017 which entailed a lower value under revaluation of investment properties (PLN 8,602 thousand). After eliminating the revaluation of real properties, the operating profit margin ratio as at 31 December 2017 was 46.4%, i.e. increased as compared to 2016 when it amounted to 43.6% (based on the same assumptions).

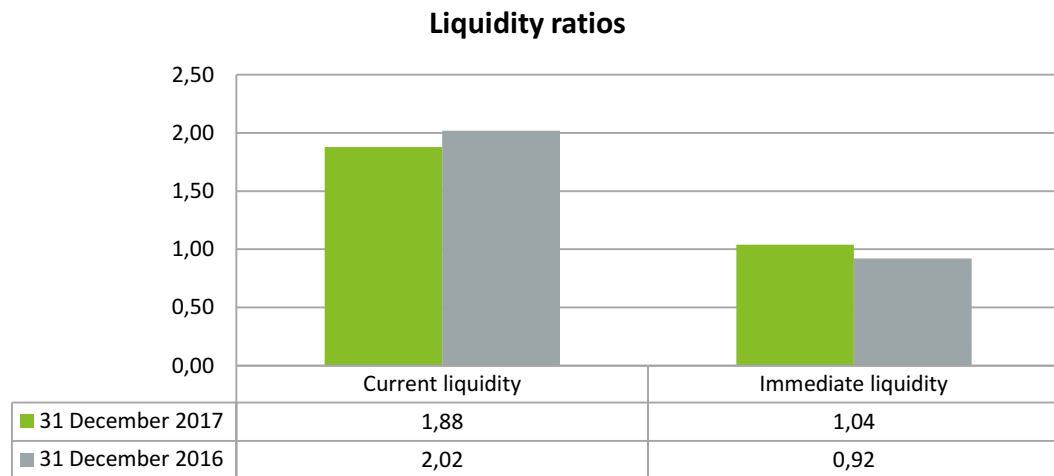
The profit margin before tax decreased in 2017 by 30.1 p.p. and amounted to 56.1%, mainly in connection with a much lower value of profit before tax (by 35.4%) in comparison with the corresponding period of 2016. In 2016, the financial result was significantly affected by the income and expenses connected with the developer agreement in Bieruń. In 2017, the amount of profit on revaluation of investment properties was much lower in spite of a growth of value of the investment in EUR. The appreciation of the Polish currency (by PLN 0.25, i.e. 5.7%) played an important role in this case.

Net profit margin decreased as compared to the previous year by 18.6 p.p. and amounted to 47.1% in 2017. This change was affected by a decrease of net result in comparison to the prior year (by 28.8%).

The return on equity decreased in 2017 as compared to 2016 (change by 3.3 p.p.) due mostly to a lower net result (by 28.8%) as compared to 2016 and an increase of equity (by 7.5%).

Return on assets decreased slightly as compared to 2016 by 2.1 p.p.

### 3. 3.2 Liquidity ratios



Liquidity analysis was based on the below defined indicators:

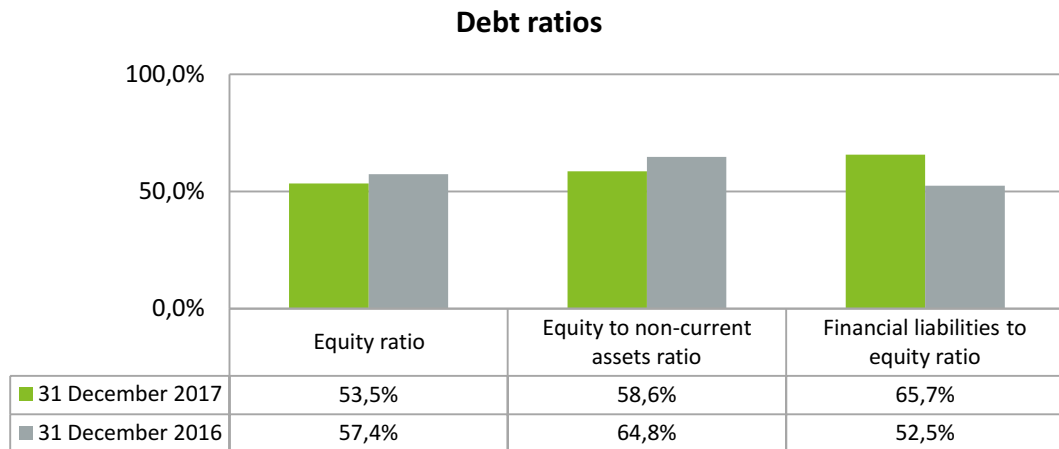
- **current ratio:** current assets / current liabilities;
- **immediate liquidity ratio:** cash and cash equivalents / current liabilities.

Current liquidity ratio as at 31 December 2017 decreased compared to 2016 (decrease of 0.14).

The cash ratio as at 31 December 2017 increased in comparison to the figure as at the end of 2016 (increase by 0.12). The change resulted from a 5.1% increase of cash balance in relation to the value as at 31 December 2016 with a simultaneous decrease of value of current liabilities by 6.9%.



### 3. 3.3 Debt ratios



Debt analysis was performed based on the following ratios presented:

- **equity ratio:** total equity/total assets.;
- **assets to equity ratio:** total equity / non-current assets;
- **financial liabilities to equity ratio:** financial liabilities <sup>1)</sup> / total equity.

<sup>1)</sup> *Financial liabilities include: long and short term liabilities from credits, loans and other debt instruments, finance lease liabilities and liabilities related to SWAP valuation.*

In 2017, the equity ratio fell by 3.9 p.p., due mainly to a higher value of total assets as compared to the level as at 31 December 2016 (increase by 15.3%), resulting among others from the growth of value of investment properties. The equity to non-current assets ratio also decreased (change by 6.2 p.p.). On the other hand, the interest-bearing debt-to-equity ratio grew (by 13.2 p.p.) by reason of the 2017 bond issue and taking up new loans which entailed an increase of value of liabilities.

### 3. 4 Information on bank credits, bonds, loans, securities and guarantees

#### 3. 4.1 Concluded and terminated loan agreements

In 2017 the Group did not take any new loans.

In 2017 the Group repaid the following loans and interest on loans:

Borrower	Lender	Date of loan agreement	Amount of loan repaid	The amount of interest repaid
MLP Pruszków II Sp. z o.o.	Fenix Polska Sp. z o.o.	1998-05-25	738 801 USD	44 410 USD
MLP Pruszków I Sp. z o.o.	Fenix Polska Sp. z o.o.	2009-01-13	0 PLN	15 000 PLN
MLP Pruszków III Sp. z o.o.	Fenix Polska Sp. z o.o.	2009-12-21	439 882 EUR	0 EUR
MLP LUBLIN Sp. z o.o.	Fenix Polska Sp. z o.o.	2014-11-05	61 847 EUR	0 EUR
MLP Poznań Sp. z o.o.	Fenix Polska Sp. z o.o.	2013-11-08	0 PLN	40 184 PLN
MLP Poznań Sp. z o.o.	Fenix Polska Sp. z o.o.	2013-11-21	0 PLN	4 892 PLN
MLP Poznań Sp. z o.o.	Fenix Polska Sp. z o.o.	2014-09-26	0 PLN	27 932 PLN
MLP Poznań Sp. z o.o.	Fenix Polska Sp. z o.o.	2014-11-26	0 PLN	24 990 PLN

In 2017 year no loan agreements were terminated.

#### 3. 4.2 Concluded and terminated bank credit agreements

- **New credit agreements in 2017**

On 13 January 2017 Raiffeisen Bank Polska S.A. granted a loan to MLP Pruszków I Sp. z o.o. for refinancing its previous debt.

On 9 January 2017, a new credit agreement between MLP Poznań Sp. z o.o. and ING Bank Śląski S.A. was signed.

On March, April and August 2017 Bank mBank S.A released the next tranche of the loan towards MLP Pruszków IV Sp. z o.o.

On May, July and November 2017 PKO BP S.A released the next tranche of the loan towards MLP Lublin Sp. z o.o.

On June, July and November 2017 roku Bank Polska Kasa Opieki S.A released the next tranche of the loan towards MLP Teresin Sp. z o.o.

In November 2017, MLP Teresin Sp. z o.o. converted a tranche of a housing loan into an investment loan.

On December 2017 roku Bank BNP BGŻ Paribas S.A released the next tranche of the loan towards MLP Pruszków III Sp. z o.o.

On 11 October 2017, MLP Wrocław Sp. z o.o. signed a loan agreement with Bank Polska Kasa Opieki S.A., and in November 2017, a tranche of the loan was drawn down.

- **Credits repaid in 2017**

MLP Group S.A. Capital Group paid all credit installments according to the agreed schedules in 2017.

In 2017 no credit agreements were terminated.

### **3. 4.3 Bonds**

On 11 May 2017, as a part of private offer, the Company issued 20,000 A series bearer bonds, with a nominal value of EUR 1,000 each and a total issue value of EUR 20,000,000 ("Bonds").

Bonds are subject to variable interest rate of EURIBOR for six-month EUR bank deposits plus a premium. The Bonds have been issued as non-secured bonds. The purpose of the issuance of the Bonds was not specified. The redemption of the Bonds is scheduled for 11 May 2022, with a possibility of an early redemption by the Company.

The bonds were admitted to the securities depository by the National Depository for Securities S.A. on the basis of the Resolution No. 305/17 of the Management Board of the National Depository for Securities S.A. and marked with the code PLMLPGR00033.

According to the resolution No. 720/707 of the Management Board of the Warsaw Stock Exchange dated 4 July 2017, it was decided to introduce 20,000 A series bearer bonds of the MLP Group S.A. in the nominal value of EUR 1,000 each to the alternative trading system - Catalyst. 12 July was the first trading day on the alternative trading system - Catalyst. Bonds will be quoted in the continuous trading system under the abbreviated name of "MLP0522".

### **3. 4.4 Loans granted**

In 2017 no loans were granted.

### **3. 4.5 Granted and received securities**

As at 31 December 2017 the Group neither received nor granted securities.

### **3. 4.6 Granted and received guarantees**

As at 31 December 2017 the Group granted the following guarantees:

- On 16 December MLP Group S.A. signed guarantee agreement (Cash Flow Back) with Raiffeisen Bank Polska S.A. and MLP Pruszków I Sp. z o.o. ("Borrower"), according to which MLP Group S.A. undertakes to provide financing to the Borrower to cover the Borrower's credit demand to extent that will cause that Debt Service Coverage Ratio (calculated according to loan agreement from 16 December 2016) will be reinstated to required level (to amount of additional tranche of credit in 2018).

## **3. 5 Assessment of the feasibility of the investment plans**

The Group is in possession of appropriate capital resources to meet its strategic objectives and to finance current operations.

The Group finances the investments, both those connected with the acquisition of new properties, as well as those connected with expanding currently held logistics parks from its own resources and through long-term debt financing in the form of bank credits and loans.

The Group assumes that the share of debt financing in the financing of the planned investment projects will be approximately 70%.

### **3. 6 Evaluation of factors and unusual events affecting consolidated financial result for the current period**

In 2017 there were no factors and unusual events affecting consolidated financial result for the current period.

### **3. 7 Information about issuing, repurchasing and repaying non-equity and equity securities**

On 11 May 2017, as a part of private offer, the Company issued 20,000 A series bearer bonds, with a nominal value of EUR 1,000 each and a total issue value of EUR 20,000,000 ("Bonds"). More information are set out in note 3.4.3.

### **3. 8 Concise description of significant successes achieved or failures occurred in 2017**

There were no significant successes achieved or failures occurred other than described in the Management Board's report, and MLP Group S.A. financial statement.

### **3. 9 Seasonal or cyclical nature of operations**

The Group's operations have neither seasonal nor cyclical nature.

## 4. Corporate governance

Statement of MLP Group S.A. with its seat in Pruszków (the "Company", "The Issuer", "Parent Company", "Parent Entity") on selected corporate governance principles set out in the annex to Resolution No. 26/1413/2015 of the Warsaw Exchange Supervisory Board of 13 October 2015, which were not complied with in the year ended 31 December 2017, along with an explanation, and reasons for non-compliance.

The Management Board of the Company, appreciating the importance of corporate governance principles to ensure transparency of internal relations and relations of the Issuer with its external environment, in particular the current and future shareholders of the Issuer, fulfilling the duty imposed by § 29 paragraph 3 of the WSE Rules informs that in the financial year ended 31 December 2016, all the principles of corporate governance set out in "Best Practice for Companies Listed on the Stock Exchange" were applied with the exception of:

### I. Disclosure Policy, Investor Communications

**Detailed principle No. I.Z.1.11.** information about the content of the company's internal rule of changing the company authorised to audit financial statements or information about the absence of such rule.

Explanation of the reasons for which the Company does not comply with the detailed principle:

Appointment and change of the audit firm falls within the competence of the Supervisory Board, which, in its decisions, always has the best interests of shareholders in mind and does not apply fixed rules on the principles of choice. Publication of information about the lack of rules in this area in the Issuer's opinion should be considered inexpedient.

**Detailed principle No. I.Z.1.15.** information about the company's diversity policy applicable to the company's governing bodies and key managers; the description should cover the following elements of the diversity policy: gender, education, age, professional experience, and specify the goals of the diversity policy and its implementation in the reporting period; where the company has not drafted and implemented a diversity policy, it should publish the explanation of its decision on its website.

Explanation of the reasons for which the Company does not comply with the detailed principle:

The representation of women and men within management and supervisory bodies in the structures of the Company is dependent on the competence, skills and efficiency. Decisions regarding the appointment to management and supervisory positions are not dependent on the gender nor the age of the candidate. The Company therefore is not able to comply diversity policy applicable to the company's governing bodies and key managers.

**Detailed principle No I.Z.1.20.** an audio or video recording of a general meeting

Explanation of the reasons for which the Company does not comply with the detailed principle:

In the opinion of the Issuer, publication of a complete record of The General Meeting of Shareholders proceedings via audio or video, could negatively effect the interest of individual shareholders. Moreover, in the Company's view, compliance with disclosure obligations as set out in applicable laws, in particular, by publication of respective current reports and publications of required information on the Company's website, provide shareholders access to all important information related to shareholders meetings.

### II. Management Board, Supervisory Board

**Recommendation No. II.R.2.** Decisions to elect members of the management board or the supervisory board of a company should ensure that the composition of these bodies is comprehensive and diverse among others in terms of gender, education, age and professional experience.

Explanation of the reasons for which the Company does not comply with the recommendation:

The representation of women and men within management and supervisory bodies in the structures of the Company is dependent on the competence, skills and efficiency. Decisions regarding the appointment to management and supervisory positions are not dependent on the gender nor the age of the candidate.

**Detailed principle No. II.Z.11.** The supervisory board should review and issue opinions on matters to be decided in resolutions of the general meeting.

Explanation of the reasons for which the Company does not comply with the detailed principle:

Articles of Association and Rules of the Supervisory Board do not require review of all matters subject to resolutions of the General Meeting. The Company believes that regulations in respect of compliance of the Supervisory Board contained in applicable laws enhanced by the Company's Articles of Association and the rules of the Supervisory Board shall be determined adequate and therefore the Company has decided not to extend regulations in this respect.

#### **IV. General Meeting, Shareholder Relations**

**Detailed principle No IV.Z.3.** Presence of representatives of the media should be allowed at general meetings.

Explanation of the reasons for which the Company does not comply with the detailed principle:

The General Meetings of Shareholders is attended by persons entitled to attend the General Meeting and individuals who support the General Meeting. According to the Company there is no need to introduce additional obligations to shareholders on enabling participation at the General Meeting of representatives of the media. In the opinion of the Issuer, the applicable regulations adequately regulate the execution of obligations to provide information imposed on public companies in respect of transparency of issues of general meetings. In case of questions regarding the general meetings addressed to the Company from the media, the Company shall provide appropriate answers.

#### **V. Conflict of Interest, Related Party Transactions**

**Detailed principle No. V.Z.5.** Before the company concludes a significant agreement with a shareholder who holds at least 5% of the total vote in the company or with a related party, the management board should request the supervisory board's approval of the transaction. Before giving its approval, the supervisory board should evaluate the impact of the transaction on the interest of the company. The foregoing does not apply to typical transactions and transactions at arm's-length made as part of the company's operations between the company and members of its group. If the decision concerning the company's significant agreement with a related party is made by the general meeting, the company should give all shareholders access to information necessary to assess the impact of the transaction on the interest of the company before the decision is made.

Explanation of the reasons for which the Company does not comply with the detailed principle:

The Issuer believes that regulations, in respect of compliance of the Supervisory Board, contained in applicable laws enhanced by the Company's Articles of Association and the rules of the Supervisory Board shall be determined adequate and therefore the Company has decided not to extend regulations in this

## VI. Remuneration

**Recommendation No. VI.R.1.** The remuneration of members of the company's governing bodies and key managers should follow the approved remuneration policy.

Explanation of the reasons for which the Company does not comply with the recommendation:

Remuneration of members of management and supervisory bodies of the Company shall be determined according to the terms of reference, responsibilities and financial performance of the Group. The Company does not intend to introduce a remuneration policy as described in the recommendations of the European Commission, in order to exercise more discretion in this respect.

**Detailed principle No. VI.Z.2.** To tie the remuneration of members of the management board and key managers to the company's long-term business and financial goals, the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years.

Explanation of the reasons for which the Company does not comply with the detailed principle:

In 2014 the Company introduced a cash settled share-based payments program. In moment of introducing this incentive program, "Best Practice of GPW Listed Companies" did not include a rule of minimal period of exercisability of mentioned scheme.

Set of corporate governance principles has been published on the Company's website.

## 4. 1 Share capital and the shareholders

### 4. 1.1 Shareholders

As at 31 December 2017, MLP Group S.A. was controlled by the majority shareholder of the Company, Cajamarca Holland B.V. headquartered in Delft, which holds 10.319.842 shares of the Company, representing 56.98% of the share capital of the Company and is entitled to 56.98% of the total number of votes at the General Meeting. Cajamarca Holland B.V. is a Dutch holding company.

The following table shows the list of shareholders as at 31 December 2017:

Shareholders	Number of shares	Share in capital	Share in the total number of votes
Cajamarca Holland B.V	10 319 842	56,98%	56,98%
Thesinger Limited	1 771 320	9,78%	9,78%
Aegon Powszechnie Towarzystwo Emerytalne S.A. <sup>1)</sup>	1 149 775	6,35%	6,35%
MetLife OFE	948 387	5,24%	5,24%
Gracecup Trading Limited	641 558	3,54%	3,54%
MIRO B.V. <sup>3)</sup>	452 955	2,50%	2,50%
Shimshon Marfogel <sup>2)</sup>	149 155	0,82%	0,82%
MIRO LTD. <sup>3)</sup>	99 170	0,55%	0,55%
Shareholders holding less than 5% of the votes	2 581 093	14,24%	14,24%
<b>Total</b>	<b>18 113 255</b>	<b>100%</b>	<b>100%</b>

<sup>1)</sup> Aegon Powszechnie Towarzystwo Emerytalne S.A. ("Towarzystwo") took over the management of Nordea Otwarty Fundusz Emerytalny ("Nordea OFE") on 1 September 2017, resulting in the total share of funds managed by the Company, namely Aegon Open Pension Fund ("Aegon OFE") and Nordea OFE, in the total number of votes at the General Meeting of the Company exceeded 5% of votes.

Prior to the management acquisition of the Nordea OFE by Towarzystwo described above:

- Aegon OFE held 809,036 shares in the Company, representing 4.47% of its share capital and entitled to 809,036 votes, ie 4.47% of the total number of votes,
- Nordea OFE held 340,739 shares of the Company, representing 1.88% of its share capital and entitled to 340,739 votes, ie 1.88% of the total number of votes.

On 17 November 2017, as a result of the completion of liquidation of the Nordea Open-end Pension Fund ("Nordea OFE"), all the assets of Nordea OFE were transferred to Aegon OFE and Aegon OFE entered into all the rights and obligations of Nordea OFE.



After the changes described above, as at 17 November 2017, the Aegon OFE fund managed by the Pension Fund Company held a total of 1,149,775 shares in the Company, which constituted 6.35% of its share capital and entitled to 1,149,775 votes, or 6.35% of all the votes.

<sup>2)</sup> As a result of the settlement of the transaction of September 29, 2017, the ownership of the Company's shares was reduced by Thesinger Limited. The transaction involved the transfer of 149,155 shares of the MLP Group S.A. representing 0.8% of the share capital of MLP Group S.A. by Thesinger Ltd. to Mr. Shimshon Marfogel, Chairman of the Company's Supervisory Board, and was included in connection with the execution of the profit distribution program adopted on 31 December 2008 by the Israel Land Development Company Ltd located in Israel and annex to the May 2007 employment contract between Mr. Shimshon Marfogel and the Israel Land Development Company Ltd located in Israel in exchange for shares in Thesinger Ltd. of the same market value.

<sup>3)</sup> Miro B.V. seated in Delft, Netherlands is the parent company of MIRO Ltd. seated in Limassol, Cyprus, holding 100 % of shares in its share capital.

#### **4. 1.2 Special rights of the Shareholders**

MLP Group S.A. did not issue shares with special rights to their holders.

According to the Articles of Association Cajamarca Holland B.V., shall have a personal right to appoint and dismiss 3 members of the Supervisory Board, including the Chairman of the Supervisory Board, unless the number of shares held by this shareholder falls below 25%, in case of MIRO B.V., if the number of shares held by this shareholder does not fall below 2.5%, the shareholder is entitled to appoint and dismiss one member of the Supervisory Board. The personal rights of the above mentioned Shareholders expire, when the number of shares held jointly by Cajamarca Holland B.V. and Miro B.V. fall below 40% of the share capital.

According to the statements of significant shareholders, they do not have other voting rights.

#### **4. 1.3 Voting rights restrictions**

**Indication of restrictions on voting rights, such as a restriction on the voting rights of holders of a given part or number of votes, time limitation for exercising voting rights or provisions according to which, in cooperation with the Company, the equity rights attached to shares are separated from the ownership of securities.**

There are no restrictions on voting rights in MLP Group S.A.

##### **Restrictions on transfer of ownership of MLP Group S.A. shares**

There are no restrictions on transfer of ownership of MLP Group S.A. shares.

## 4. 2 General Meeting of Shareholders

**Method of operation of the General Meeting of Shareholders and its basic rights and the rights of shareholders, and the manner of their execution, in particular those arising from the General Meeting of Shareholders regulations, if such regulations have been passed, unless the information in this regard does not arise directly from the law.**

The General Meeting of Shareholders may be ordinary or extraordinary, and as a body of the Company operates under the regulations of the Commercial Companies Code dated 15 September 2000, (Official Journal of 2000 No. 94, item 1037, with amendments), Articles of Association and the provisions of the Regulation of the General Meeting of Shareholders of MLP Group S.A. dated 2 December 2009.

According to the Articles of Association, subject of the Company's Ordinary General Meeting of Shareholders should be:

- examination and approval of the Management Board's report on the company's activities and the financial statements for the preceding financial year,
- adopting of resolution on the distribution of profit or covering of loss,
- granting vote of acceptance to members of the company bodies confirming the discharge of their duties,
- resolutions of the General Meeting shall decide on matters required by the Commercial Companies Code, unless the Articles of Association states otherwise and it is permitted by law and,
  - appointing and dismissing members of the Supervisory Board, subject to the provisions of the Articles of Association concerning the rules for appointing the members of the Supervisory Board by the individual shareholders,
  - changes to the Article of Association of the Company,
  - establishing the rules and amounts of remuneration of the members of the Supervisory Board,
  - merger or dissolution of the Company and the appointment of liquidators,
  - examination of claims made against the members of the Company's bodies or the Company's founders for compensation for the damage caused by their unlawful conduct.

Resolution of the General Meeting of Shareholders is not required for both the acquisition and disposal of investment property, perpetual usufruct or a share in property or perpetual usufruct, as well as the pledge of property or of perpetual usufruct.

The General Meeting is convened by an announcement on the Company's website and in the manner specified for the publication of current information in accordance with the provisions of the Act on Public Offering. The announcement should be made at least twenty-six days before the General Meeting. The General Meeting is convened by the Management Board as ordinary or extraordinary. The ordinary General Meeting of Shareholders shall be held within six months after the end of each financial year. If, however, the Management Board does not convene the Ordinary General Meeting within the prescribed period, the Supervisory Board shall have the right to convene the meeting.

The Management Board shall convene an Extraordinary General Meeting of Shareholders:

- on its own initiative,
- at the request of the Supervisory Board,
- at the request of shareholders representing a total minimum of 5% of the share capital,
- based on a resolution of the General Meeting of Shareholders in accordance with the contents of the resolution and set its agenda.

Besides the individuals referred to in the provisions of the Commercial Companies Code, each Independent Member of the Supervisory Board may require:

- convening the General Meeting of Shareholders,
- introduction of specific issues to the agenda of the General Meeting of Shareholders.

Removal of items from the agenda of the General Meeting at the request of the person or persons entitled to require their consent.

The Management Board determines the order of the General Meeting of Shareholders.

The Management Board, having received the relevant request, is required no later than two weeks from the date of the relevant request to convene the General Meeting.

In accordance with the Articles of Association, if the Management Board of the Company does not convene an Extraordinary General Meeting of Shareholders within the prescribed period, the right to convene such meeting belongs to the individuals filing for the General Meeting - after receiving authorization from the Registry Court. However, the Supervisory Board may convene an Extraordinary Meeting of Shareholders when a request is submitted to the Management Board.

Resolutions may be adopted, despite the lack of formal convening of the General Meeting, if the entire share capital is represented and none of the participants objected to the General Meeting or the individual items on the agenda.

All shareholders are entitled to attend the General Meeting in person or by proxy. Power of attorney to participate in the General Meeting and exercise voting rights must be granted in writing or in electronic form. Granting power of attorney in an electronic form does not require a secure electronic signature verified by a valid qualified certificate. No restrictions can be made on the right to appoint a proxy at the General Meeting and on the number of proxies.

Persons that are the company's shareholders sixteen days before the General Meeting of Shareholders have the right to participate in the General Meeting of Shareholders (date of registration in the General Meeting).

Members of the company's bodies also have the right to attend the General Meeting of Shareholders, including members of the bodies whose mandate expired, but their activity is subject to an assessment of the General Meeting, as well as the individuals designated by the Management Board to support the General Meeting.

As a rule, resolutions of the General Meeting shall be passed by an absolute majority of votes cast, and the voting at the General Meeting is open. A secret ballot shall be ordered for elections and motions for dismissal of members of the Company's bodies or the liquidators, to hold them accountable as well as in personal matters or on request of at least one of the shareholders present or represented at the General Meeting.

General Meetings of Shareholders are held in Warsaw or in the Company's registered office.

#### **4. 3 Policy for amending the Articles of Association**

Amendment of the Articles of Association of MLP Group S.A. in accordance with art. 430 § 1 and art. 415 § 1 of the Commercial Companies Code, requires a resolution adopted by a majority of three quarters of the vote and an entry to the register. In case of a resolution regarding the amendment of Articles of Association concerning increasing the benefits of shareholders or limiting the rights granted to individual shareholders in accordance with art. 354 of the Commercial Companies Code, they require the consent of all the shareholders to which the resolution concerns. The Management Board shall notify the registration court when there is a change in the Articles of Association. MLP Group S.A. General Meeting of Shareholders may authorize a unified text of the changes within the Articles of Association or make other changes specified in the resolution of the General Meeting of Shareholders.

## 4. 4 Management Board

On 18 April 2016 Ordinary General Meeting of Shareholders adopted a resolution changing the Article of Association of the Company. The change was registered in the court.

According to the Articles of Association, the Management Board consists of two to three members, appointed and dismissed by the Supervisory Board.

In accordance with the Articles of Association, the Management Board's term of office is joint and lasts three years. The President of the Management Board is appointed by the Supervisory Board. The Management Board, as well as its individual members may be dismissed or suspended by the General Meeting of Shareholders.

Current term of the Management Board's office began on 25 June 2015. The Supervisory Board appointed Mr. Michael Shapiro as the President of the Management Board, Mr. Radosław Tomasz Krochta as the Vice-President of the Management Board, and Mr. Tomasz Zabost as Member of the Management Board. In accordance with the provisions of the Commercial Companies Code and the Articles of Association, the three years term of office shall expire no earlier than 28 June 2018. However, the mandates of the members of the Management Board shall expire no later than the date of the Ordinary Meeting of Shareholders when the approval of the financial statements for the year 2017 shall take place.

On 9 June 2016 according to the Resolution of the Supervisory Board, Mr. Radosław T. Krochta was appointed as the President of the Management Board.

On 9 June 2016 according to Resolution of the Supervisory Board, Mr. Michael Shapiro was appointed as the Vice-President of the Management Board.

### 4. 4.1 Competence of the Management Board

In accordance with the Articles of Association, the Management Board represents the Company in its affairs and in particular is in control of the Company's assets and legal rights of the Company, as well it adopts resolutions and decisions in respect to all matters which are not reserved for the General Meeting of Shareholders or the Supervisory Board.

The President of the Management Board or two members of the Management Board (jointly) have the right to represent the Company. Proxies appointed by the Management Board may also represent the Company within the granted power of attorney. The Management Board may also unanimously decide to grant a power of attorney.

The Management Board should adopt a resolution prior to the following actions:

- issuance of bill of exchange,
- granting of security for any debt of an other entity, including a subsidiary,
- establishing a mortgage or other encumbrance on any assets of the Company,
- signing a contract, which imposes an obligation to provide or a risk to provide by the Company within one year items, services or cash of the amount of 500.000 EUR, unless the agreement was included by the Management Board in the annual financial plan (budget) of the Company and approved by the Supervisory Board,
- convening the General Meeting of Shareholders or requesting a meeting of the Supervisory Board,
- filing a petition for cancellation or invalidation of resolutions of the General Meeting of Shareholders,
- filing for bankruptcy of the Company.
- taking any actions in aim to change of right to authorization or bank approval scheme;
- employing, laying off and defining amount of remuneration of the Company's department directors (departments of: marketing, investments, finance and administration);
- nomination or appointing a member of any body in any entity being under the Company's control

- representing of the Company at General Meetings of Shareholders of the Company's subsidiaries or granting power of attorney at General Meetings of Shareholders of the Company's subsidiaries along with giving instructions regarding way of voting (if applicable);
- participation in other entities, excluding entities belonging to the Group or disposing shares or contributions in other entities, excluding operations within the Group;
- issuance of shares, bonds, warrants, bonds of exchange or change of terms of the Company's bonds' issuance;
- taking on an obligation to purchase or disposal of property, perpetual usufruct of property or its part except from concluding preliminary agreement of purchase or perpetual usufruct of property imposing obligations only on second party of the contract and not including any obligations of the Company to advance payments;
- concluding, modification or termination of agreement concerning: taking a loan, providing bank guarantee, insurance guarantee or bank account, letter of credit or any other financial product, in which parties of the agreement are or will be the Company and domestic bank, foreign bank, credit institution or finance institution in accordance with the Act from 29 August 1997- Bank Law;
- cancelling debts in amount higher than 100,000 PLN or the equivalent in other currency;
- approving annual budgets or long-term financial plans

By the end of the third month after the end of each financial year, the Management Board shall prepare an annual financial statement, that along with the draft of the resolution on the distribution of profit and the opinion and report of the auditor are submitted to the Supervisory Board in order to examine the documents before the General Meeting of Shareholders.

#### **4. 4.2 Principles of operation of the Management Board**

The Management Board operates under the Articles of Association, Rules of the Management Board and the Commercial Companies Code.

Rules of the Management Board regulate the issues related to the organization of the meetings, and decision-making of the Management Board. In accordance with the Rules of the Management Board, the Board meetings take place when necessary but no less than twice a month.

The Management Board adopts resolutions at the meetings, however the members of the board may participate in a meeting by means of direct communication and cast their votes by mail, fax or by phone. In addition, the Management Board members may participate in adopting resolutions by casting their votes in writing through another member. A resolution may be adopted without a meeting or in the form of a written ballot if it is approved by all members of the Management Board.

The Rules define ways for declaration of will in the name of the Company. It is possible to make statements via-email in cases where the nature or content of such legal relation is permitted. Provision of the Regulations also clarify granting and revoking of the power of attorney - the Management Board grants the power of attorney at the meeting with all the members present. It is also possible to grant a power of attorney to the meeting held through distant communication. Regulations regulate the issues of making resolutions, allowing for the possibility of adopting a resolution by circulation.

#### 4. 4.3 Skład osobowy Zarządu

As at 31 December 2017, the Management Board consisted of three members.

The following table provides information on the members of the Management Board, their position, the date of accession to office, and the date of expiry of the current term of office.

Name	Surname	Position	Date of last appointment	Expiry of the current term
Michael	Shapiro	Wiceprezes Zarządu	9 June 2017	25 June 2018
Radosław Tomasz	Krochta	Prezes Zarządu	9 June 2017	25 June 2018
Tomasz	Zabost	Członek Zarządu	9 June 2017	25 June 2018

##### **Radosław T. Krochta - President of the Management Board**

Mr. Radosław T. Krochta graduated from Management and Banking College in Poznań (Finance). In 2003 he completed postgraduate studies in Management at Nottingham University and a MBA postgraduate program. He has many years of financial experience in Poland, Eastern Europe and the United States. From 2001 to 2004 he held the position of CFO at Dresdner Bank Polska S.A. He was also the Director of the Department of Strategic Consulting at Deloitte Advisory and previously worked as a manager at PWC in Warsaw and in the United States. In 2010, he joined MLP Group S.A. and serves as the President of the Management Board.

##### **Michael Shapiro - Vice-President of the Management Board**

Mr. Michael Shapiro has over twenty years of experience in the real estate sector. He graduated from the Faculty of Management and Industrial Engineering at the Israel Institute of Technology in Haifa. In the years 1957-2000, Mr. Shapiro served as Chief Executive Officer and managed Miro Engineering Ltd and S.M. Shapiro Engineers Ltd. Since 1995, he has been the President of MLP Group S.A. He is responsible for the current development and commercialization of the Group's logistics parks and for the investment in surplus land held by the Group.

##### **Tomasz Zabost - Member of the Management Board**

Mr Tomasz Zabost graduated from the Civil Engineering Department at the Warsaw university of Technology. He completed also various courses and trainings in the field of management. He has over 20 years of experience in commercial property management. He specializes in asset management at every level of an investment project. Previously he was responsible for completion of new real estate projects, starting from investment strategy, i.e. selecting a developer, land, contractors, suppliers, architects, engineers and consultants. He was also responsible for preparing a budget and feasibility plans. For the previous 8 years Tomasz Zabost was employed in ProLogis, from 2007 he was a Vice President-Head of Project Management. Earlier he supported a Spanish construction corporation Dragados, in its efforts to enter the Polish market. During his career he also cooperated with other developers and contractors of warehouse and production space in Poland and overseas. He worked for Liebrecht&Wood, E&L Project and Ghelamco Poland.

## 4. 5 The Supervisory Board

The Supervisory Board exercises permanent supervision over the activities of the Company in all areas of its operations.

The Supervisory Board consists of six members, including the Chairman and the Co-Chairman, appointed for a term of 3 years. At least two members of the Supervisory Board are Independent Members.

The term of the current office of the Supervisory Board started on 25 June 2015 and expires on 25 June 2018. However, the mandates of the members of the Supervisory Board shall expire no later than the date of the Ordinary Meeting of the Shareholders when the approval of the financial statements for the year shall take place.

As at 31 December 2017, the Supervisory Board consisted of six members.

Subject to personal rights, as described in point. 4.1.2 of the report (in Significant Shareholders chapter), the members of the Supervisory Board are appointed and dismissed by the General Meeting of Shareholders.

### 4. 5.1 Competence of the Supervisory Board

The Supervisory Board exercises permanent supervision over the activities of the Company in all areas of its operations, however apart from matters, referred to the provisions of the Commercial Companies Code, the specific rights assigned to the Supervisory Board, in accordance with Art. 21.2 of the Articles of Association are as follows:

- giving consent to the issuance of shares within target capital, including the rules for the determination of the shares issue price and deprivation of pre-emptive rights if the resolution of the Management Board provides such possibility; <sup>1)</sup>  
approving annual budgets and development plans of the Company and the Group
- granting the Company the right to obtain contractual obligations or making expenditures in single or related transactions which are beyond the normal business activities with a value exceeding PLN 5.000.000
- approval of acquisition, disposal and liquidation of the Company's shares in other companies, with the exception of the transactions within MLP Group S.A. Capital Group and transactions included in the annual budget for Company's financial plan
- approving purchases or sales of investment property (including the right of perpetual usufruct) with a value exceeding PLN 1.000.000, with the exception of transactions included in the annual budget or the Company's financial plan
- appointing and dismissing members of the Management Board
- appointing the auditor to audit or review the financial statements of the Company, <sup>1)</sup>  
concluding agreements between the Company and members of the Management Board
- adopting resolutions concerning consent for agreements between the Company and a shareholder of the Company holding, directly or indirectly, shares exceeding 5% of the total number of votes at the General Meeting
- expressing consent for the members of the Management Board to engage in the Company's competitive interests personally, as a partnership, as members of companies bodies, as well as shareholders of companies if their participation in the share capital of these companies is greater than 5%, or if the Article of Association or under an agreement are entitled to appoint at least one member of the Management Board or Supervisory Board
- adopting resolutions on determining the remuneration rules and amounts of the members of the Management Board, <sup>1)</sup>
- approval of the Rules of the Board, <sup>1)</sup>
- examination, reviewing and evaluating issues which are subject to resolutions of the General Meeting of Shareholders

- expressing the consent for the mortgage pledging of real estate property, perpetual usufruct or shares in the Company's real estate for an entity other than a bank.

<sup>1)</sup> Resolutions on the matters described above in selected points require the approval of at least one of the Independent Members of the Supervisory Board.

To exercise its competence, the Supervisory Board may examine all documents, reports and explanations of the Board of Directors and Company's employees, as well as, review the Company's assets.

The Supervisory Board may express all opinions regarding the Company and present them to the Management Board as proposals and initiatives. The Management Board has a duty to notify the Supervisory Board on their position regarding the opinion, proposal or initiative no later than two weeks from the date of filing, unless the opinion of the Supervisory Board is incompatible with the proposal or initiative of the Management Board, no consent is required for any of the Company's bodies proceed in action.

Independent Members of the Board have the right to convene the General Meeting of Shareholders, or to introduce specific issues on the agenda of the General Meeting.

#### 4. 5.2 Principles of operation of the Supervisory Board

The Supervisory Board operates under the Rules of the Supervisory Board adopted by the General Meeting which defines its competence, organization and manner of operation. According to the Rules, the Supervisory Board performs its tasks jointly, at the meetings. Meetings are held when necessary, but not less frequently than once every two months and shall be held at the registered office of the Company. The rules allow the possibility of holding meetings with the use of means of distant communication.

The Supervisory Board shall adopt resolutions if the meeting is attended by at least half of its members, and all members are invited at least 7 Business Days prior to the meeting. However, in urgent matters the Chairman of the Supervisory Board, or under the his authority another Member of the Supervisory Board may convene a meeting of the Supervisory Board in a shorter period of time. As a rule, the Supervisory Board resolutions shall be passed by an absolute majority of votes. In case of equal number of votes, the Chairman of the Supervisory Board is decisive.

As a rule, members of the Supervisory Board may participate in adopting resolutions by casting their votes in writing through another member of the Supervisory Board. It is permissible to hold meetings in writing. The Supervisory Board meeting may be held with the use of direct communication at a distance. The detailed description of holding meetings and passing resolutions using means of direct communication at a distance is specified in the Rules of the Supervisory Board. The Supervisory Board meets as the need arises, but not less frequently than once a quarter.

At least two members of the Supervisory Board appointed by the General Meeting of Shareholders must be Independent Members of the Supervisory Board, of which at least one should be qualified in the field of accounting or auditing as referred to in the Act of Certified Auditors. The criteria for independence are set forth in Art. 18.12 of the Articles of Association.

#### 4. 5.3 Composition of the Supervisory Board

As at 31 December 2017 the composition of the supervisory bodies of the parent company was as follows:

Name	Surname	Position	Date of appointment	Expiry of the current term
Shimshon	Marfogel	President of Supervisory Board	25 June 2015	25 June 2018
Eytan	Levy	Vice-President of Supervisory Board	25 June 2015	25 June 2018
Yosef Zvi	Meir <sup>1)</sup>	Member of Supervisory Board	25 June 2015	25 June 2018
Guy	Shapira	Member of Supervisory Board	25 June 2015	25 June 2018
Jacek	Tucharz	Member of Supervisory Board	25 June 2015	25 June 2018
Maciej	Matusiak	Member of Supervisory Board	25 June 2015	25 June 2018



### **Shimshon Marfogel - President of the Supervisory Board**

Mr. Shimshon Marfogel has graduated from the Hebrew University of Jerusalem, earning a B.A. (Bachelor of Arts) at the Faculty of Accounting and Economics.

Mr. Shimshon Marfogel has worked for Israel Land Development Company Ltd in Tel Aviv. Since 1985 as: chief accountant (in 1985-1986), vice president and chief accountant (1986-2001), CEO (in 2001 -2004), since 2004, Mr. Shimshon Marfogel serves as vice president of the management board of Israeli Land Development Company Ltd. based in Tel Aviv.

### **Eytan Levy - Vice-President of the Supervisory Board**

Mr. Eytan Levy has graduated from Bar-Ilan University in Ramat Gan, earning a B.A. (Bachelor of Arts) in Political Science.

From 1982 to 1991 he held various managerial positions, including director of the department of special products, the vice president responsible for marketing in Israel National Post Authority, based in Jerusalem. In 1991-1997, he held various managerial positions, including director of safety and logistics, vice-president of marketing and sales in the Israel National Telecommunications Company, based in Jerusalem. In 1998-2000, he was a partner in the Israeli office of the American law company Gerard Klauer & Mattison, based in Tel Aviv. Since 1997, he is the director of the Israeli law Percite Technology, headquartered in Rosh Ha `Ayin.

### **Yosef Zvi Meir - Member of the Supervisory Board**

Mr. Yosef Zvi Meir graduated from the Hebrew University of Jerusalem, earning a BA (Bachelor of Arts) at the Faculty of Economics. In addition, Mr Yosef Zvi Meir completed postgraduate MBA studies at Darby University, in Israel.

Since 1977, Mr. Yosef Zvi Meir has worked in Israel Land Development Company Ltd. based in Tel Aviv, as Chief Financial Officer.

<sup>1)</sup> As of 31 December 2017, Mr. Yosef Zvi Meir resigned from the position of a Supervisory Board Member. To fill in his position, one of the Company's shareholders, in exercise of the powers conferred by the Company's Articles of Association, appointed Mr. Daniel Nimrodi, with effect as of 1 January 2018.

### **Daniel Nimrodi - Supervisory Board Member**

Mr. Daniel Nimrodi joined The Israel Land Development Company Ltd. ("ILDC") in 2016 as Urban Renewal Manager of the ILDC Group and Vice-President of The New Community Ltd., a subsidiary of ILDC. Mr. Daniel Nimrodi is the Bachelor of Law specializing in international commercial law and holds an associate degree in business management. Professional experience of Mr. Daniel Nimrodi also includes acting as Project Manager in a start-up company focusing on large-scale influence, compliance, business analysis and strategic and business intelligence. Mr. Daniel Nimrodi also served as Junior Associate in the Central Circuit Criminal Department at the Ministry of Defense of Israel.

### **Maciej Matusiak - Member of the Supervisory Board**

Mr. Maciej Matusiak studied at the Technical University of Łódź, has the title of Chartered Financial Analyst (CFA) and is a licensed stock broker. In 1995-1996 he worked at Daewoo Towarzystwo Ubezpieczeniowe S.A. in the Department of Capital Investments as a securities dealer and a financial analyst. In 1996-1998 he worked in PKO BP Bankowy Dom Maklerski as a financial analyst. From 1998 to 2002 he worked in the Commercial Union Group - first in the Investment Department of Commercial Union Polska - Towarzystwo Ubezpieczeń na Życie S.A. and the Commercial Union Investment Management (Polska) S.A. Since 2006, he serves as CEO of Artemis Investment Sp. z o.o. in Warsaw.

#### **Jacek Tucharz - Member of the Supervisory Board**

Mr. Jacek Tucharz has graduated from the Warsaw School of Economics, Foreign Trade department and obtained postgraduate degree in the Warsaw School of Economics in the study of Marketing Policy. He is a licensed stock broker. In 1993, he joined the Brokerage Office of Powszechny Bank Kredytowy from the beginning as a specialist, later as a stock broker. From 1996 to 1999 he was associated with the XI NFI. Then he held the position of Investment Director at Trinity Management and PZU NFI Management. In 2005 he was appointed a Vice-President of the Management Board in ZELMOT S.A., and in 2006 he was appointed a CFO in Hygienika S.A. Since 2006 he runs his own business.

#### **Guy Shapira - Member of the Supervisory Board**

Mr. Guy Shapira graduated with honours from Interdisciplinary Center Herzliya (IDC) in Israel with a bachelor degree on the faculty of Business and Administration (B.A.) and Law (LL.B) with specialization in International Business Law. Mr. Shapiro is also an Israeli licensed lawyer. Before appointment to the Supervisory Board, Mr. Guy Shapira worked for Steinmetz, Haring, Gurman & Co. lawfirm in Israel, and was a member of the Audit Committee of Students Association at IDC.

According to the statement of Mr. Guy Shapira, he runs business outside of the Company, which is not competitive with the business of the Company and he does not participate in any competitive company as a partner in a partnership or as a member of the authority of a rival company or a member of the governing body of any competitive legal entity and is not entered in the Register of Insolvent Debtors maintained pursuant to the provisions of the Law by the National Court Register (KRS).

#### **4. 5.4 Committees of the Supervisory Board**

On 15 January 2014, a meeting of the Supervisory Board was held where an Audit Committee was established which is responsible for overseeing the Company's financial situation. Detailed tasks and functioning of the audit committee was determined by the terms and conditions annexed to the Rules of the Supervisory Board. The role and responsibilities of the Audit Committee are to supervise, monitor and advise the Management Board and the Supervisory Board on all matters related to risk management, audit, financial control and compliance with relevant laws and regulations. The Audit Committee evaluates the performance of the independent auditor and the associated costs.

Composition of the Audit Committee as at 31 December 2017 is as follows:

- Jacek Tucharz,
- Eytan Levy,
- Maciej Matusiak.

As at 31 December 2017 the person who fulfils requirements of art. 86 paragraph. 4 of the Act of Certified Auditors (i.e. accounting or auditing qualifications) and the criteria for independence, was Maciej Matusiak.

In addition, the Supervisory Board may appoint, among its members, the remuneration committee which prepares proposals for the remuneration of the members of the Management Board and will supervise the execution in the Company's incentive plans which will entitle its participants to acquire shares or instruments related to the Company. The remuneration committee will consist of 2 to 3 members.

As at 31 December 2017, there is no remuneration committee in the Supervisory Board of the Issuer.

#### 4. 6 Remuneration and employment contracts of the members of the Management Board, the Supervisory Board

##### 4. 6.1 Remuneration, bonuses and benefits received by the members of Management Board and the Supervisory Board

Management Board remuneration in 2017	In the Company	In other Group entities
<b>• Remuneration and other benefits:</b>		
Radosław T. Krochta	313	385
Michael Shapiro	382	25
Tomasz Zabost	102	361
Marcin Dobieszewski	218	-
<b>• Cash settled share based payments</b>	<b>1 011</b>	<b>-</b>
	<b>2 026</b>	<b>771</b>

Total remuneration due or received by the Management Board of the Company and other Group entities in 2017 amounted to PLN 2,797 thousand.

Members of the Management Board received remuneration from the Company and its Subsidiaries: (i) in respect of the employment agreements, (ii) for providing of services in favour of the Group, (iii) in respect of service as a member of the Management Board, (iv) in respect of cash settled share-base payments.

Remuneration of the Supervisory Board in 2017	
Maciej Matusiak	30
Jacek Tucharz	30
Eytan Levy	30
Shimshon Marfogel	30
Yosef Zvi Meir	30
Guy Shapira	30
	<b>180</b>

In 2017, the total value of remuneration due or received by the Supervisory Board was PLN 180 thousand.

##### 4. 6.2 Agreements with members of the Management Board in case of resignation, dismissal

The President of the Management Board Radosław T. Krochta is employed under an employment agreement. Under the terms of the employment agreement, the dismissal of individual members of the Management Board entitles them to receive a salary during the notice period.

The Vice-President of the Management Board Michael Shapiro is employed in the subsidiary MLP Pruszków I Sp. z o.o. under an employment agreement. Under the terms of the employment agreement, it entitles Mr. Michael Shapiro to receive a salary during the notice period.

Member of the Management Board Tomasz Zabost is employed under an employment agreement. Under the terms of the employment agreement, the dismissal of individual members of the Management Board entitles them to receive a salary during the notice period.

#### **4. 7 Shares held by members of the Management Board and the Supervisory Board**

Michael Shapiro holds indirectly, through MIRO B.V. and MIRO Ltd., companies controlled by him in 100%, a 3.05% share in MLP Group S.A.'s share capital, and, through his 25% share in the share capital held by MIRO B.V. in Cajamarca Holland B.V., participates economically in 14.24% of the share capital of MLP Group S.A., which amounts to a total economically effective share of 17.29% in the share capital of MLP Group S.A.

Supervisory Board Chairman Shimshon Marfogel indirectly, through a 7.86% share in a company holding the Issuer's shares (Thesinger Limited), participates economically in 0.77% of MLP Group S.A.'s share capital, and he holds, through the Company's shares subscribed for in September (a transaction described in Note 1.4.1) a 0.82% share in the Company's share capital, which amounts to a total economically effective share of 1.59% in the share capital of MLP Group S.A.

Other Supervisory Board members do not hold directly any shares in MLP Group S.A.

#### **4. 8 Management stock options program**

In MLP Group S.A. there is no management stock option program. However, in 2014, a cash settled share based payments program was introduced. Details of the program are disclosed in note 20 of the Consolidated Financial Statements for the year ended 31 December 2017.

#### **4. 9 Changes in the core principles of management of the Company and the Group**

In 2017, there were no major changes in the core principles of management. The development of the organization enforces improving management procedures applicable in MLP Group S.A. as well as other entities of the Group.

#### **4. 10 The system of internal control and risk management**

The Management Board is responsible for the internal control system and its effectiveness in the management of the financial statements and reports prepared and published in accordance with the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by law of Non-Member States (Official Journal 2014 item 133 with amendments).

Efficient and appropriate operation of the system of internal control and risk management is ensured by the following features:

- established organizational structure,
- competence, knowledge and experience of the persons involved in the internal control,
- supervision of the management of the system and regular evaluation of the Company's operations,
- verification of reports by the auditor.

Similar characteristics of the internal control in several areas, such as:

- operating activities,
- financial activities,
- reporting process (including preparation of the financial statements),
- process analysis of the costs and expenses associated with the project, costs and expenses of general management and sales and costs and expenses for the operation of the rented area,
- risk management,

not only guarantee the efficiency of the internal control system but also support the management of the entire Group.

The main features of the system of internal control and risk management in relation to the preparation of individual and consolidated financial statements, are mainly:

- established organizational structure,
- qualified staff,
- direct supervision of management,
- verification of the financial statement by an auditor.

Persons responsible for the preparation of financial statements in the context of financial reporting and the Company's management consists of highly qualified staff in the Financial Division, managed directly by the CFO and indirectly by the Management Board.

In accordance with applicable laws, the Group's financial statements are reviewed or audited by an independent auditor of renowned and high qualification. During the audit performed by the independent auditor, the Financial Division employees involved in the process of preparation of the report, are available for any explanations.

The controlling process in the Company, the primary and significant part of which is the internal control, is based on a system of budgets. The Company performs the annual process of updating the plans for the short, medium and long term and creates a detailed budget for the coming year in terms of:

- construction projects,
- operational projects,
- general and administrative expenses and sales.

The financial and accounting system of the Group is the source of data for the entire reporting system of the Group, that is:

- for the financial reporting process,
- periodic reports,
- management reporting system.

After the closure of the accounts, reports on the realization of budgets and forecasts are prepared. In respect of ended reporting periods, the Group's financial results are compared to the budget assumptions.

A key element of this process is to monitor the implementation of the deviations from the plan and explain the reasons for their occurrence. Observation and learning about the causes helps to optimize the Group's operations and minimize potential risks. Due to the nature of the industry, analyzes are conducted on many levels - not only individual cost groups are analyzed, but also separate individual investment projects. On the basis of these reports during the year the Management Board analyzes current financial result comparing them with the adopted budgets.

Effective internal control (within the reporting system) is an essential step in the identification of risks and the changes in management. Besides the reporting system, effective risk analysis is also necessary. Therefore, the key measure in preventing exposure to risk is to properly assess the potential and current investment control. Any possible changes in the budgets of investment projects are transferred to the profit forecast and forecast of cash flow, in order to take a look at the problem globally and not only eliminate the risks associated with the project, but also liquidity risk, exchange rates, etc. Such broad area of management and monitoring of risks and internal controls in all areas relevant to the organization, largely eliminates most of the risks to which the Group is exposed.

#### 4. 11 Entity authorized to audit the financial statements

Pursuant to the resolutions adopted on 5 and 6 December 2016, the Company's Supervisory Board, acting on the basis of Article 21.2 g) of the Company's Articles of Association, resolved to select KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa, with its registered office in Warsaw as an entity authorized to audit separate and consolidated financial statements for the years 2016 and 2017, as well as to review interim separate and consolidated financial statements in the 2017 financial year.

Headquarters of KPMG Spółka z ograniczoną odpowiedzialnością spółka komandytowa is seated at 00-189 Warsaw, 4A Inflancka Street. KPMG Spółka z ograniczoną odpowiedzialnością spółka komandytowa is registered on the list of entities entitled to audit financial statements under number 3546.

The agreement with the entity authorized to audit financial statements was concluded by the Management Board for the time required to perform the tasks assigned to the auditor.

The remuneration for audit and review of financial statements and other services is presented in the table below.

	<b>31 December</b>	<b>31 December</b>
	<i>as at</i>	<i>2017</i>
	<i>2017</i>	<i>2016</i>
Audit of the annual financial statements	109	95
Audit of individual financial statements of subsidiaries	107	107
Review of the consolidated and separate financial statements	46	60
Audit and review of group reports	122	130
Translation of financial statements	14	14
<b>Total remuneration</b>	<b>398</b>	<b>406</b>

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**Radosław T. Krochta**  
*President of the Management  
 Board*

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**Michael Shapiro**  
*Vice-President of the  
 Management Board*

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**Tomasz Zabost**  
*Member of the Management  
 Board*

*Pruszków, 14 March 2018 roku*