



POLSKI HOLDING NIERUCHOMOŚCI SPÓŁKA AKCYJNA

Annual report for the year 2015



**POLSKI HOLDING
NIERUCHOMOŚCI S.A.**

Annual report consists of:

- 1. Letter from the President of the Management Board**
- 2. Selected financial data**
- 3. The auditor's opinion and report on the financial statements for the year ended 31 December 2015**
- 4. Financial statements for the year ended 31 December 2015**
- 5. Polski Holding Nieruchomości Directors' Report for the year ended 31 December 2015**

Dear Sirs / Madams,

On behalf of the Management Board of Polski Holding Nieruchomości S.A., I have the pleasure to present you the Annual Report of Polski Holding Nieruchomości S.A. and the Group for 2015, which contains an overview of key events and financial results achieved in the previous year.

In financial terms, 2015 was a good year. The Group achieved stable financial results and increased its rental result. It significantly improved its adjusted EBITDA, which in 2015 increased by 27% YoY to PLN 32.3 million. However, due to the changing situation in the real estate market, revaluation write-offs were made for properties, as a result of which the Group's consolidated net profit as of the end of 2015 amounted to PLN 50.8 million.

In 2015, Polski Holding Nieruchomości S.A. gradually strengthened its position of the leading investor in the modern commercial property market in Poland. July 2015 saw the commissioning of the Company's flagship project, Domaniewska Office Hub – an A-class office building located in the business heart of the Mokotów district, with an area of over 27,000 sq.m. This area constitutes almost 10% of modern office area commissioned in Warsaw in 2015. The Group's real estate portfolio was also joined by Andersia Business Center – highest class office building situated in a prime location in Poznań, which enriched the Company's modern office space by c.a. 15,000 sq.m.

In 2016, we will focus on improving our operating results. We will carefully analyze all activities being performed as well as investment projects – planned and under preparation. We will continue to improve effectiveness and professionalize our activities in particular segments. Our goal is to formulate an optimum growth path which will precisely match the current market situation and, most importantly, bring benefits for the Company and its Shareholders.

We will also strive to intensify mutual efforts of state-owned entities, which assume implementing principles aimed at regulating the cooperation and activities of institutions and companies with the Treasury's stake. We are convinced that such cooperation and its effects will have a positive impact on economic development and will enable the entities from the group created by companies with the Treasury's stake to compete with foreign companies.

On behalf of the Management Board of Polski Holding Nieruchomości S.A., I would like to thank all Group employees for their efforts in the past year, and the Supervisory Board for its engagement. I wish to extend special thanks to our Shareholders. Your trust is for us an expression of highest appreciation, and encourages us to set ourselves ambitious goals. I also assure you that 2016 will bring further numerous successes of the Polski Holding Nieruchomości S.A. Group.

Yours sincerely,

Maciej Jankiewicz
President of the Management Board
of Polski Holding Nieruchomości S.A.

POLSKI HOLDING NIERUCHOMOŚCI S.A.

Annual report for the year 2015

(All amounts are expressed in PLN million, unless stated otherwise)

Selected financial data

Selected consolidated financial data	in PLN million		in EUR million	
	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2015	Year ended 31 December 2014
I. Operating revenues	69.8	131.2	16.7	31.4
II. Result from operating activities	39.6	123.5	9.5	29.5
III. Profit/ (loss) before tax from continuing operations	49.6	120.5	11.9	28.8
IV. Net result	48.5	120.8	11.6	28.9
V. Cash flow from operating activities	(4.2)	(0.8)	(1.0)	(0.2)
VI. Cash flow from investing activities	188.1	0.0	44.9	0.0
VII. Cash flow from financing activities	(180.5)	0.8	(43.1)	0.2
VIII. Total net cash flow	3.4	0.0	0.8	0.0
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
IX. Total assets	1 916.6	2 034.9	449.7	477.5
X. Non-current liabilities	1.6	0.3	0.4	0.1
XI. Current liabilities	7.3	120.5	1.7	28.3
XII. Equity attributable to the equity holders of the parent	1 907.7	1 914.1	447.7	449.2
XIII. Issued capital	46.7	46.5	11.0	10.9
XIV. Number of shares (in pcs)	46 722 747	46 482 044	46 722 747	46 482 044
XV. Profit/(loss) per ordinary share (in PLN/EUR)	1.04	2.62	0.25	0.63
XVI. Book value per share (in PLN/EUR)	40.83	41.18	9.58	9.66

The above financial data for the year ended 31 December 2015 and for the year ended 31 December 2014 were converted to EUR according to the following rules:

- particular assets, equity and liabilities – based on the average exchange rate as of 31 December 2015: 4.2615 PLN/EUR
- particular items of the statement of comprehensive income and statement of cash flows – based on arithmetic average of average of exchange rates announced by Narodowy Bank Polski at the end of each month of reporting period from 1 January 2015 to 31 December 2015 – 4.1848 PLN/EUR

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POLSKI HOLDING NIERUCHOMOŚCI S.A.
FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

**PREPARED IN ACCORDANCE WITH INTERNATIONAL
FINANCIAL REPORTING STANDARDS
APPROVED BY THE EUROPEAN UNION**



**POLSKI HOLDING
NIERUCHOMOŚCI S.A.**

A. Financial statements

Statement of financial position as at 31 December 2015

	Note	31 December 2015	31 December 2014
ASSETS			
Non-current assets			
Property, plant and equipment	8	1.0	0.0
Intangible assets		0.1	0.0
Deferred tax assets		0.6	0.6
Investment in subsidiaries	9	1 661.2	1 645.8
Other long-term financial assets	10	242.3	260.0
Total non-current assets		1 905.2	1 906.4
Current assets			
Trade receivables and other assets	11	7.8	128.3
Cash and cash equivalents		3.6	0.2
Total current assets		11.4	128.5
Total assets		1 916.6	2 034.9
Current liabilities			
Trade and other payables	13	(6.3)	(1.4)
Short-term debt	13	(0.5)	(119.1)
Short-term provisions		(0.5)	
Total current liabilities		(7.3)	(120.5)
Non-current liabilities			
Non-current debt	13	(0.1)	0.0
Deferred-tax liability		(1.2)	0.0
Non-current provisions		(0.3)	(0.3)
Total non-current liabilities		(1.6)	(0.3)
Total liabilities		(8.9)	(120.8)
Net assets		1 907.7	1 914.1
Equity			
Issued capital	14	46.7	46.5
Share premium	15	1 751.9	1 746.3
Other reserve		60.6	0.5
Retained earnings		48.5	120.8
Total equity		1 907.7	1 914.1

Accounting policies and notes to the financial statements on pages 12-27 are an integral part of these financial statements

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**Statement of comprehensive income
for the year ended 31 December 2015**

	Note	Year ended	
		31 December 2015	31 December 2014
Revenue from core operating activity	16	27.0	5.1
Cost of core operating activity	16	(24.2)	(2.6)
Change in value of shares in subsidiaries	9	41.3	92.4
Profit/(loss) from redemption of shares in subsidiaries		1.5	33.7
Core operating activity result		45.6	128.6
Lease revenues		0.3	0.0
Cost of property maintenance		0.0	0.0
Lease result		0.3	0.0
Administrative and sales expenses		(5.5)	(4.3)
Other costs		(0.8)	(0.8)
Profit on operating activities		39.6	123.5
Finance income	17	10.3	
Finance costs	18	(0.3)	(3.0)
Net profit from financing activities		10.0	(3.0)
Profit before tax		49.6	120.5
Income tax expense		(1.1)	0.3
Net profit		48.5	120.8
Other comprehensive income			
Calkowite dochody ogółem		48.5	120.8
Basic and diluted net earnings per share	21	1.04 PLN	2.62 PLN

**Statement of changes in equity
for the year ended 31 December 2015**

	Note	Issued capital	Share premium	Other reserve	Retained earnings	Total equity
As at 1 January 2015		46.5	1 746.3	0.5	120.8	1 914.1
Net profit for the period					48.5	48.5
Total comprehensive income for the period					48.5	48.5
Payment of dividend					(60.7)	(60.7)
Share issue	14,15	0.2	5.6			5.8
Transfer between capital				60.1	(60.1)	0.0
As at 31 December 2015 roku		46.7	1 751.9	60.6	48.5	1 907.7
As at 1 January 2014		44.6	1 696.5	1.3	99.0	1 841.4
Net profit for the period					120.8	120.8
Total comprehensive income for the period					120.8	120.8
Payment of dividend				(0.8)	(99.0)	(99.8)
Share issue		1.9	49.8			51.7
As at 31 December 2014		46.5	1 746.3	0.5	120.8	1 914.1

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Statement of cash flows
for the year ended 31 December 2015

	Year ended	
	31 December 2015	31 December 2014
Cash flow from operating activities		
Profit before tax	49.6	120.5
Adjustments to cash flow from operating activities	(53.8)	(121.3)
Depreciation and amortization	0.4	0.1
Change in value of shares in subsidiaries	(41.3)	(92.4)
Profit/(loss) from redemption of shares in subsidiaries	(1.5)	(33.7)
Interest income from investing activities	(10.1)	0.0
Borrowing costs	0.3	3.0
Change in working capital	(1.6)	1.7
Net cash flow from operating activities	(4.2)	(0.8)
Cash flow from investing activities		
Total inflow	266.1	0.0
Redemption of shares in subsidiaries	127.4	0.0
Financial instruments	138.7	0.0
Total outflow	(78.0)	0.0
Purchase of property, plant and equipment and intangible assets	(0.5)	0.0
Loans	(4.6)	0.0
Acquisition of shares in subsidiaries	(72.9)	0.0
Net cash flow from investing activities	188.1	0.0
Cash flow from financing activities		
Total inflow	0.0	100.6
Loans	0.0	100.6
Total outflow	(180.5)	(99.8)
Loans	(119.4)	
Finance lease payments	(0.4)	
Dividends	(60.7)	(99.8)
Net cash flow from financing activities	(180.5)	0.8
Total net cash flow	3.4	0.0
Change in cash and cash equivalents	3.4	0.0
Cash and cash equivalents at the beginning of the period	0.2	0.2
Cash and cash equivalents at the end of the period	3.6	0.2

Accounting policies and notes to the financial statements on pages 12-27 are an integral part of these financial statements

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Accounting policies and notes to the financial statements

1. General information

The financial statements of Polski Holding Nieruchomości S.A. cover the year ended 31 December 2015 and contain comparative data for the year ended 31 December 2014.

Polski Holding Nieruchomości S.A. ("the Company", "the Entity", "PHN S.A.") was formed by a notarial deed of 25 March 2011. The Company's registered office is located in Warsaw, Al. Jana Pawła II 12.

The Company is entered in the National Court Register maintained by the District Court, the 12th Business Department of the National Court Register, with the number KRS 0000383595. The Company was assigned a statistical number REGON 142900541.

The duration of the Company is unlimited.

In accordance with the Articles of Association, the core business activity of the Company is conducting the activities of holding company.

The direct parent company of the Company is the State Treasury.

1.1 Composition of the Management Board

In accordance with the Articles of Association, the Management Board consists of one to six persons. In the reporting period, the Company's Management Board consisted of the following persons:

In the period from 1 January 2015 to 5 February 2015:

Mr Artur Lebieckiński - President of the Management Board

Mr Włodzimierz Stasiak - Management Board Member in charge of finance

In the period from 5 February 2015 to 21 December 2015:

Mr Artur Lebieckiński - President of the Management Board

Mr Mateusz Matejewski - Vice-President of the Management Board – Member of the Management Board in charge of Property Asset Management.

Mr Włodzimierz Stasiak - Management Board Member in charge of finance

PHN S.A. with the companies forming the Group is one of the largest entities in Poland in the commercial property sector in terms of portfolio value. The Group's portfolio comprises more than 140 separate properties in business terms with a value of more than PLN 2.1 billion. PHN S.A.'s operations are concentrated in Warsaw and the largest regional cities, including Poznań, Tricity, Łódź and Wrocław.

The Group has many years of experience in the following sectors: office, commercial and logistical, both in terms of property management and execution on investment projects. The Group executes modern commercial projects on its own and in cooperation with high class partners with many years of experience and a sound market position. Development projects carried out under the auspices of PHN S.A. are marked with timeless architecture and care for quality. They meet top standards, therefore, they appeal to the tastes of the most demanding clients.

From 13 February 2013, the shares of PHN S.A. have been listed on the primary market of the Warsaw Stock Exchange in the continuous trading system.

As at 31 December 2015, PHN S.A. was indirectly or directly the parent of 49 entities. The Group's structure is presented in Note 1.4

On 21 December 2015, the Supervisory Board dismissed Mr Artur Lebieckiński, Mr Mateusz Matejewski and Mr Włodzimierz Stasiak from the Management Board and delegated the Supervisory Board Chair Ms Izabela Felczak – Poturnicka to temporarily act as the President of Management Board, and the Supervisory Board Member Mr Zbigniew Kulewicz to temporarily act as Vice-President of the Management Board for a period not longer than 3 months.

On 4 March 2016, the Supervisory Board appointed:

Mr Maciej Jankiewicz President of the Management Board as of 7 March 2016

Mr Zbigniew Kulewicz as Vice-President – Management Board Member responsible for Property Management as of 7 March 2016

Mr Piotr Staroń as Member of the Management Board responsible for Finance as of 1 April 2016

1.2 Management representations

1.2.1 Concerning the fairness of the preparation of the consolidated financial statements

The Management Board of Polski Holding Nieruchomości S.A. hereby declares that, to the best of its knowledge, these financial statements and comparative data have been prepared in accordance with the accounting policies applicable to the Company, they give a true, fair and clear view of the Company's

financial position and results of operations, and that the Company Directors' Report gives a true view of the development and achievements as well as the position of the Company, including a description of the basic threats and risk.

1.2.2 Concerning the entity authorized to audit the financial statements

The Management Board of Polski Holding Nieruchomości S.A. hereby declares that the entity authorized to audit the financial statements, PricewaterhouseCoopers Sp. z o.o., has been elected in compliance with the applicable laws and that the said entity and the registered auditors who audited these financial

statements met the requirements for expressing an impartial and independent opinion on the audited annual financial statements, in accordance with the applicable laws and professional standards.

2. Basis of preparation of financial statements

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU ("IFRS EU").

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

The financial statements have been prepared on the assumption that the Company will continue as a going concern in the foreseeable future. As at the date of preparation of the financial statements, there are no circumstances indicating any threats to the Company continuing in operation.

The Polish zloty ("PLN") is the Company's presentation currency. Unless stated otherwise, all data in the Company's financial statements are presented in PLN million.

The financial statements have been prepared on the historical cost basis, except for investment properties and financial instruments classified as measured at fair value through profit or loss.

The preparation of the financial statements in accordance with IFRS requires using certain significant accounting estimates. It also requires that the Management Board uses its own judgment in applying the accounting policies adopted by the Company. The issues that require exercising significant judgment or are particularly complex or the areas in the case of which the assumptions and estimates made have a significant impact on the consolidated financial statements are presented in Note 7.3.

3. Classification of the consolidated financial statements

The Company prepared the consolidated financial statements as at and for the year ended 31 December 2015 in accordance with the IFRS. The financial statements were approved by the Company's Management Board on 14 March 2015.

4. Investments

As at 31 December 2015, the Company holds investments in the following subsidiaries:

Entity	Share in capital and voting rights	
	31 December 2015	31 December 2014
Warszawski Holding Nieruchomości S.A. (WHN S.A.)	97.85%	97.92%
Dalmor S.A.	2.76%	1.21%
PHN SPV 12 Sp. z o.o.	99.90%	100.00%
PHN 4 Sp. z o.o.	100.00%	100.00%
PHN Hotel Management Sp. z o.o. (formerly PHN SPV Aktywa Specjalne Sp. z o.o.)	99.90%	100.00%
PHN 5 Sp. z o.o.	100.00%	100.00%
PHN Property Management Sp. z o. o.	99.90%	100.00%
PHN Dewelopment Sp. z o. o.	99.90%	0.00%
PHN SPV 33 Sp. z o. o. (formerly Andersia Business Centre Sp. z o.o.)	100.00%	Nd.
Marina Molo Rybackie Sp. z o.o.	100.00%	Nd.

Accounting policies and notes to the financial statements on pages 12-27 are an integral part of these financial statements

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In 2015 business combinations took place between Warszawski Holding Nieruchomości S.A. ze spółkami INTRACO S.A., Budexpo S.A., Wrocławskie Centrum Prasowe S.A., Warton Sp. z o.o. i Kaskada Service Sp. z o.o.

In the year ended 31 December 2015 the Group sold to Parzniew Partners B.V. 50% of the shares in each of the two subsidiaries:

Parzniew Logistics Center Infrastructure Sp. z o. o.

Parzniew Logistics Center 1 Sp. z o. o.

The Group also holds 50% of the shares in each of the following jointly controlled entities:

Parzniew Logistics Center Infrastructure Sp. z o. o.

Parzniew Logistics Center 1 Sp. z o. o.

5. New standards and interpretations issued but not yet effective

The following standards and interpretations have been issued by the International Accounting Standards Board or by the IFRS Interpretations Committee but have not yet become effective:

✓ IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39. The standard is effective for annual periods beginning on or after 1 January 2018.

The standard introduces one model providing only two categories of financial assets: measured at fair value and subsequently measured at amortized cost. The classification is made at initial recognition and depends on the entity's business model applied to manage financial instruments and the contractual cash flow characteristics of these instruments.

IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model.

Most of the requirements in IAS 39 for the classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

In terms of hedge accounting changes were designed to more closely match the hedge accounting to risk management.

The Company will apply IFRS 9 after it has been adopted by the European Union.

As at the date of preparation of these financial statements, IFRS 9 had not yet been adopted by the European Union.

✓ Defined Benefit Plans: Employee Contributions – Amendments to IAS 19

Amendments to IAS 19 Employee Benefits were issued by the International Accounting Standards Board in November 2013 and are effective in the European Union for annual periods beginning on or after 1 February 2015 or after this date.

The amendments allow entities to recognize employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service if the amount of the employee contributions is independent of the number of years of service.

The Company will apply the amendments to IAS 19 as from 1 January 2016.

✓ IFRS Improvements 2010-2012

In December 2013, the International Accounting Standards Board issued IFRS Improvements 2010-2012 which amend seven standards. The improvements include changes in presentation, recognition and measurement as well as terminology and editorial changes. The amendments are effective in the European Union for annual periods beginning on 1 February 2015.

The Company will apply the above IFRS Improvements as from 1 January 2016.

✓ IFRS 14 Regulatory Deferral Accounts

The standard permits first-time adopters to continue to recognize amounts arising from rate-regulated activities in accordance with their previously binding accounting standards. However, to enhance comparability with entities that already apply IFRS and do not recognize such amounts, IFRS 14 requires that the effect of rate regulation be presented separately from other items both in the statement of financial position and in the income statement and the statement of other comprehensive income.

By Decision of the European Union, IFRS 14 will not be adopted.

✓ Amendments to IFRS 11 concerning acquisitions of interests in joint operations

This amendment to IFRS 11 requires the investor when he acquires an interest in a joint operation that constitutes a business as defined in IFRS 3 to apply the accounting rules on businesses combinations in accordance with IFRS

3 and the rules under other standards, unless they are contrary to the guidance set out in IFRS 11.

The amendment is effective for annual periods beginning on 1 January 2016.

The Company will apply the amendment as from 1 January 2016.

✓ **Amendments to IAS 16 and IAS 38 concerning depreciation**

The amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

The amendments are effective in the European Union for annual periods beginning on 1 January 2016.

The Company will apply the amendments as from 1 January 2016.

✓ **IFRS 15 Revenue from Contracts with Customers**

IFRS 15 Revenue from Contracts with Customers was issued by the International Accounting Standards Board on 28 May 2014 and is effective for annual periods beginning on or after 1 January 2018

The principles set out in IFRS 15 will apply to all contracts resulting in revenue. The new standard introduces the core principle that revenue must be recognized when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the transaction price must generally be allocated to the separate elements. When the value of revenues varies for any reason, under the new standard the variable amounts must be recognized as revenues providing that it is highly probable that the recognition of the revenues will not be reversed in the future as a result of remeasurement. Additionally, according to IFRS 15 costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed.

The Company will apply IFRS 15 as from 1 January 2018.

As at the date of preparation of these financial statements, IFRS 15 had not yet been adopted by the European Union..

✓ **Amendments to IFRS 10 and IAS 28 concerning sales or contributions of assets between an investor and its associates or joint ventures**

The amendments solve the problem of the current inconsistency between IFRS 10 and IAS 28. The

accounting treatment depends on whether non-monetary assets sold or contributed to an associate or joint venture constitute a business.

When the non-monetary assets do constitute a business, the investor shows a full gain or loss on the transaction. If, however, the assets do not meet the definition of a business, the investor shall recognize a gain or loss excluding the part constituting other investors' interests.

The effective date of the amended regulations has not been determined by the International Accounting Standards Board.

The Group will apply the amendments as from the date of the regulations coming into force in line with the decisions of the International Accounting Standards Board.

As at the date of preparation of these consolidated financial statements, these amendments had not yet been adopted by the European Union.

✓ **IFRS Improvements 2012-2014**

In September 2014, the International Accounting Standards Board issued IFRS Improvements 2012-2014 which amend four standards: IFRS 5, IFRS 7, IAS 19 and IAS 34. The amendments are effective for annual periods beginning on 1 January 2016.

The Company will apply the above IFRS Improvements as from 1 January 2016.

✓ **Amendments to IAS 1**

In December 2014, as part of its Disclosure Initiative, the International Accounting Standards Board issued an amendment to IAS 1. The purpose of issuing the amendment is to clarify the concept of materiality and to explain that if an entity concludes that certain information is immaterial, it should not be disclosed, even if, in principle, such disclosure is required by another IFRS. In the amended IAS 1, it has been explained that the items presented in the statement of financial position and the statement of profit and loss and other comprehensive income can be aggregated or disaggregated, depending on their materiality. Additional guidance was also introduced, concerning the presentation of subtotals in these statements. The amendments are effective for annual periods beginning on 1 January 2016.

The Company will apply the above amendment as from 1 January 2016.

✓ **IFRS 16 Leases**

IFRS 16 *Leases* was published by the International Accounting Standards Board on 13 January 2016 and is

effective for annual periods beginning on or after 1 January 2019.

The new standard sets the principles for recognition, measurement, presentation and disclosures concerning leases. All lease transactions result in the lessee obtaining the right to use an asset and a liability arising from the obligation to pay. Thus, IFRS 16 cancels the classification into operating and finance leases in accordance with IAS 17 and introduces one accounting model for leases on the part of the lessee. The lessee will be obliged to recognize: (a) assets and liabilities for all lease transactions concluded for a period of more than 12 months, except for situations when a given asset is of low value; and (b) depreciation of the leased asset separately from interest on the lease liability in the statement of profit or loss.

To a considerable extent, IFRS 16 repeats the regulations contained in IAS 17 concerning the accounting treatment of leases by the lessor. In consequence, the lessor continues the classification into operating and finance leases and diversifies the accounting treatment accordingly.

The Group will apply the amendments as from the date of the regulations coming into force in line with the decisions of the International Accounting Standards Board.

As at the date of preparing these consolidated financial statements, the amendment has not yet been endorsed by the European Union.

- ✓ **Amendments to IAS 12 concerning recognition of a deferred asset on unrealized tax losses**
- ✓ Amendment to IAS 12 clarifies the requirements concerning recognition of a deferred tax asset on unrealized tax losses related to debt instruments. An entity

will be obliged to recognize a deferred tax asset on unrealized losses when it is a result of discounting cash flows related to a debt instrument, using a market interest rate, also when the entity intends to maintain the debt instruments to maturity, and on receipt of the principal amount there will be no obligation to pay taxes. Economic benefits reflected in a deferred tax asset arise from the possibility of the holder of the above-mentioned instruments obtaining future profits (reversing the discounting effect) without the need to pay taxes.

- ✓ The amendment is effective for annual periods beginning on or after 1 January 2017.
- ✓ The Group will apply the above amendments as from 1 January 2017.
- ✓ As at the date of preparing these consolidated financial statements, the amendment had not yet been adopted by the European Union.
- ✓ **Amendments to IAS 7: Disclosure Initiative**

The amendment to IAS 7 is effective for annual periods beginning on or after 1 January 2017. Entities will be obliged to disclose the reconciliation of changes in liabilities arising from financial activities.

The Group will apply the above amendments as from 1 January 2017.

As at the date of preparing these consolidated financial statements, the amendment had not yet been adopted by the European Union.

The Management Board is currently analysing the impact of the standards and interpretations which have been issued but are not yet effective on the results and financial position of the Company.

6. Significant accounting policies

The accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the Company's financial statements for the year ended 31 December 2014, except for:

- the application of the following amendments to the standards and new interpretations effective for annual periods beginning on 1 January 2015:

- ✓ **IFRS Improvements 2011-2013**

In December 2013, the International Accounting Standards Board issued *IFRS Improvements 2011-2013* which amend four standards. The improvements include changes in presentation, recognition and measurement as well as terminology and editorial changes.

- ✓ **IFRIC 21 Levies**

The interpretation clarifies the accounting treatment of liabilities to pay levies other than income taxes. An obligating event is an event specified in the regulations resulting in the need to pay a levy. The fact that the entity will continue in operation in the subsequent period or prepares the financial statements in accordance with the going concern principle does not give rise to an obligation to recognize a liability. The same principles for recognizing a liability relate to annual and interim financial statements. Applying the interpretation to liabilities in respect of emissions is optional.

The application of the above amendments to the standards and new interpretations effective for annual periods beginning on 1 January 2015 had no impact on the Company's financial position or results of operations or the

Accounting policies and notes to the financial statements on pages 12-27 are an integral part of these financial statements

scope of the information presented in the Company's financial statements.

6.1 Measurement of items denominated in foreign currencies

6.1.1 Functional currency and presentation currency

Items included in the financial statements are measured in the currency of the primary economic environment in which the entity operates ("functional currency"). The financial statements

are presented in Polish zloties (PLN) which are the Company's functional currency and presentation currency of the Company.

6.1.2 Transactions and balances

Transactions denominated in foreign currencies are translated into the functional currency of the Company at the rate of exchange actually applied on the transaction date that results from the nature of a given business operation (in the case of sale or purchase of foreign currencies or payment of receivables or liabilities) or for all other operations at the average exchange rate published for the given currency by the National Bank of Poland prevailing on the day preceding that date. Assets and liabilities denominated in foreign currencies are translated at the mid exchange rate for the given currency determined by the National Bank of Poland as at that date. Exchange gains and losses on settlements of these transactions and the balance sheet valuation of assets and liabilities denominated in foreign currencies are recognized in the income statement.

Foreign exchange gains and losses relating to liabilities in respect of borrowings and cash and cash equivalents are presented in the statement of comprehensive income under finance income or costs. All other exchange differences are presented under "other revenues" or "other costs". Foreign exchange differences on translation of non-monetary assets or financial liabilities such as equity instruments are measured at fair value through profit or loss and are recognized in the profit/loss as part of the profit or loss on re-measurement to fair value. Foreign exchange differences on translation of such non-monetary financial assets as financial instruments classified as available-for-sale financial assets are disclosed under other comprehensive income.

6.2 Property, plant and equipment

Property, plant and equipment are measured and presented in the statement of financial position at acquisition cost or cost of development less accumulated depreciation and impairment losses.

Freehold land held by Company is not depreciated. Other items of property, plant and equipment are depreciated on a straight line basis over their estimated useful lives, which are verified on a quarterly basis. The expected useful lives are as follows:

- ✓ buildings and structures – 22 to 40 years;
- ✓ plant and machinery – 2 to 5 years;
- ✓ motor vehicles – from 1.5 to 5 years;
- ✓ other equipment – up to 5 years.

Any subsequent expenditure is included in the carrying amount of the given fixed asset, or - where appropriate - is recognized as separate item, but only if it is probable that future economic benefits will flow to the Company and the cost of the given item can be reliably measured. All other expenditure on repair and preventive maintenance is recognized in the profit/loss for the period in which it was incurred.

Property, plant and equipment are assessed for impairment if events or circumstances indicate that their carrying amount may

not be realized. Impairment losses are recognized in the amount by which an asset's carrying amount exceeds its recoverable amount and are recognized in the profit/loss. The recoverable amount is the higher of the asset's fair value less selling expenses and its value in use.

Gains or losses on disposal of property, plant and equipment representing the difference between the sales revenue and the carrying amount of the disposed asset are recognized in the consolidated profit/loss under "other revenues" and "other costs".

Assets under construction

Assets under construction are measured at acquisition cost increased by the costs of any subsequent expenditure which comprises expenditure relating directly to the costs of preparation of the asset for its intended use. Administrative expenses are not taken into account unless they can be directly attributed to individual projects. Borrowing costs are capitalized until the date of project completion

6.3 Impairment of non-financial assets

Depreciable assets are assessed for impairment each time events or a change in circumstances indicate that their carrying amount may not be recoverable. Impairment losses are recognized to the amount in which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less selling expenses and its

value in use. For the purpose of impairment analysis, assets are grouped at the lowest level for which separate cash inflows can be identified (cash generating units). Non-financial assets, for which impairment losses have been previously identified, are at each reporting date verified for the possibility of impairment loss reversal.

6.4 Costs of external financing

The costs of external financing comprise interest calculated using the effective interest rate method, finance lease liabilities and foreign exchange losses arising in connection with external

financing up to the amount corresponding to the adjustment of interest expenses.

6.5 Shares in subsidiaries

The Company values shares held in subsidiaries (non-current financial assets) at the purchase price, which (in the event of impairment being identified) is adjusted to the estimated recoverable amount determined as the carrying value of net assets adjusted for the fair value measurement of the net assets which are recognized in the books of account at the purchase price less accumulated impairment. Assets are tested for impairment if there are indications that the carrying amount of investment may not be recovered. The Company

analyzes the value of the net assets of the companies in which it holds interest due to the fact that the main assets of such companies are investment properties recognized at the fair value. Due to the above, in the Management Board's opinion, the net asset value reflects the fair value of the shares held. In the event of impairment or reversal of impairment, write-downs are recognized in the statement of comprehensive income under "Change in the value of shares in subsidiaries".

6.6 Financial assets

The Company classifies its financial assets into the following categories:

- ✓ Financial assets at fair value through profit or loss - assets and liabilities acquired or incurred in order to sell or re-purchase in the near term;
- ✓ Investments held to maturity - financial assets which are not derivative financial instruments, quoted on an active market, with fixed or determinable payments and with fixed maturity dates, which the Company has the positive intention and ability to hold until maturity;
- ✓ Loans and receivables - financial assets which are not derivative financial instruments with fixed or determinable payments, which are not quoted on an active market;
- ✓ Available-for-sale financial assets - non-derivative financial assets which are not classified as financial

assets at fair value through the statement of comprehensive income, loans and receivables or assets held to maturity.

The above classification is based on the criterion of the purpose of financial assets acquisition. The Management Board classifies its financial assets upon their initial recognition. Regular financial asset purchase and sale transactions are recognized as at the transaction date – i.e. as at the date on which the Company commits to purchase or sell a given asset. Financial assets are derecognized where the right to receive the underlying cash flows expires or is transferred, and the Company transfers substantially all of the risks and rewards of ownership of those assets. Following initial recognition, financial assets available for sale and financial assets at fair value through profit or loss are stated at fair value. Loans and receivables, and held-to-maturity investments are carried at amortized cost using the effective interest method.

6.7 Trade receivables and other assets

Trade and other receivables are initially stated in the statement of financial position at fair value; after initial recognition, trade and other receivables are stated at amortized cost using the effective interest rate less impairment losses, if any. The value of receivables is written down depending on the likelihood of their being received.

Impairment write-downs against trade and other receivables are recognized at the end of each quarter, if objective evidence exists that the Company will not be able to recover all amounts due and receivable under original terms and conditions. The objective evidence of receivables' impairment are: serious financial problems of debtors or delayed payments. The amount of the write-down is the difference between the receivable's

Accounting policies and notes to the financial statements on pages 12-27 are an integral part of these financial statements

carrying amount and the present value of estimated future cash flows associated with the receivable. Impairment losses are recognized in the consolidated statement of comprehensive income under "other costs". Appropriate impairment allowances are created for bad debts. Any future repayments of receivables for which an impairment allowance was recognized are taken to "other revenues" in the consolidated statement of comprehensive income.

6.8 Cash and cash equivalents

Cash at bank, cash on hand and current deposits held to maturity as well as other financial assets are stated at nominal value. Interest realized on current deposits is recognized in the statement of cash flows under cash flows from investing activities.

6.9 Interest-bearing loans, advances and debt securities

At the moment of initial recognition, all bank loans, advances and debt securities are stated at the fair value less costs incurred to obtain a loan or advance.

Subsequently, interest-bearing loans, advances and debt securities are measured at amortized cost using the effective interest rate method

6.10 Equity

Share capital is stated at the nominal value registered with the National Court Register (KRS). The differences between the fair value of the payment received and the nominal value of the shares are recorded in reserve capital, as share premium and recognized in the statement of financial position under "Excess of the issue price over the nominal amount". Costs of share issue incurred in connection with formation of a joint-stock

6.11 Trade and other payables

Trade and other payables are initially stated at fair value. After initial recognition, trade and other payables are stated at amortized cost using the effective interest rate method. Where the difference between payables stated at amortized cost and in

6.12 Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognized in the consolidated statement of comprehensive income. Income tax relating to items not recognized directly in the consolidated statement of comprehensive income is recognized outside profit or loss under "other comprehensive income" if relates to items recognized under other comprehensive income or under "equity" – if relates to items recognized in equity.

Prepayments for inventories are stated at the amount of cash expensed and in accordance with the received VAT invoices documenting the prepayment made.

Long-term trade receivables are stated, as a rule, at amortized cost, using the effective interest rate. If, however, the difference between amortized cost and the amount due and receivable does not have any material effect on the Company's financial results, such receivables are stated in the consolidated statement of financial position in the amount due and receivable

As at the date of the report, cash in foreign currencies is stated at the average National Bank of Poland exchange rate prevailing for the given currency at that date. For the purposes of the statement of cash flows, the same definition of cash is adopted.

When determining amortized cost, the costs of obtaining a loan or advance and discounts or premiums received in connection with the liability are taken into account.

Income or cost is recognized in the income statement upon removal of the related liability from the balance sheet or as a result of the settlement by the effective interest rate method

company or a share capital increase reduce the share premium to the amount of excess of the issue price over the nominal amount of the shares, and the remaining part is charged to other reserves. Other supplementary capital is created from retained earnings, which are credited to other supplementary capital in accordance with the shareholders' decision.

the amount due and payable does not have any significant effect on the financial results of the Company, such payables are stated at the amount due and payable.

Current tax is the amount of tax calculated on taxable income for the given year using the tax rates enacted at the reporting date, after accounting for all prior year tax adjustments.

Deferred tax is recognized using the liability method, as income tax payable in future periods (deferred tax liability) or income tax recoverable in future periods (deferred tax assets) on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts used to calculate the tax base. Deferred tax assets and deferred tax

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liabilities are measured using the tax rates that are expected to apply in the period when the asset is realized or the liability is settled.

Deferred tax assets in respect of tax losses are recognized if utilization of tax losses in the following years is probable.

The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer

6.13 Employee benefits

Defined contribution plan

A defined contribution plan is a plan whereby the Company pays defined amounts of contributions for employee benefits to a separate business entity. The contributing companies are not required to make any additional contributions if the said separate business entity does not have sufficient funds to pay the employees the benefits they are eligible for. The amount of the contributions made is recognized as employee related costs in the month in which they are calculated.

The Company is required – based on binding legal regulations - to collect and transfer to the Social Security Institution (ZUS) pension, disability pension and health insurance contributions on behalf of its employees. The Company's respective obligation is determined on the basis of the total amount payable in respect of the contributions due. The plan is managed by third parties.

Defined benefit plan

A defined benefit plan is a plan which is not a defined contribution plan. In a defined benefit plan the parameters of

6.14 Provisions

Provisions are recorded when the Company has a current (legal or constructive) obligation resulting from past events and it is probable that settling the obligation will result in a necessity of an outflow of resources embodying economic benefits and the amount of the obligation can be reliably estimated.

6.15 Revenues

Revenues are recognized in the amount of likely economic benefits to be received by the Company in connection with a given transaction, provided that their amount can be estimated

6.16 Costs

The cost of goods for resale and finished goods sold is measured at the amount of the costs of manufacture using the

probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed as at each balance sheet date and recognized up to the amount reflecting the probable future taxable income earned which would enable utilizing the asset.

the benefit which an employee will receive in the future (e.g. after retirement) are estimated in advance (e.g. its amount, date of disbursement).

The Company is obliged to pay retirement benefits in the amount stipulated in the Labour Code. The Company recognizes the present value of its liability under the above obligation as current- or non-current employee benefits payable in the statement of financial position. The amount is calculated as at the balance sheet date using actuarial techniques, according to the projected unit credit method. The current value of the liability is determined by discounting the estimated future cash disbursements in this respect. Any change in the value of this liability is recognized in profit or loss under "payroll and other employee benefits", with the exception of actuarial gains and losses which – if material – are recognized in "other comprehensive income". Discount is recognized under finance costs.

Provisions are stated at the present value of the costs that are required to be incurred to settle the current liability at the reporting date, estimated in accordance with the best knowledge of Company's management.

reliably. Revenues are recognized in the amount of the fair value of the consideration received or receivable, net of VAT and discounts..

method of strict identification of the actual costs of the assets sold or based on percentage shares of e.g. the shares sold etc.

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6.17 Dividend

Payments of dividend to the shareholders are recognized as a liability in the Company's financial statements in the period in which the dividend was authorized by the shareholders.

6.18 Finance costs

Finance costs relating to the current period are recognized in the profit/loss except for the costs that are capitalized in accordance with IAS 23.

7. Financial risk management

7.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk.

The Company's overall risk management policy concentrates on unpredictability of financial markets and trying to mitigate the

7.1.1 Interest rate risk

The interest rate risk is the risk resulting from changes in market interest rates to which PHN S.A. is exposed. PHN S.A. did not hedge against the risk of changes in interest rates. The Management Board observes the interest rate fluctuations on an ongoing basis and takes adequate actions. The Company's exposure to the risk of changes in interest rates is mainly

7.1.2 Credit risk

The Company concludes transactions exclusively with renowned companies with good creditworthiness. Furthermore, due to ongoing monitoring of the balances of receivables, the Company's exposure to the risk of not recovering the receivables is insignificant.

7.1.3 Liquidity risk

Liquidity risk is the risk that the Company will be unable to settle its financial liabilities when they become due. Prudent liquidity risk management by the Company involves, among other things, maintaining the adequate level of cash and an appropriate structure of current assets and liabilities. Polski Holding Nieruchomości S.A. is a holding company, managing its subsidiaries. The main source of revenues of the company as a holding company is revenues from management services

7.2 Capital risk management

The primary objective of the Company's capital management is to ensure that it continues as a going concern, earns a return for its shareholders and benefits for other stakeholders, and maintains an optimal capital structure to reduce the cost of equity.

In managing its capital risk, the Company takes decisions concerning its financial leverage level, dividend policy, issue of

impact of any unfavourable trends on the Company's financial results.

related to non-current financial liabilities in respect of loans granted to the Company by a subsidiary, which bear interest based on a variable interest rate (WIBOR). Due to a low balance of interest-bearing liabilities, the Company's exposure to such risk is insignificant).

In respect of the Company's other financial assets, such as cash and cash equivalents, the Company's credit risk arises due to the other party's inability to make payments, and the maximum exposure to this risk is equal to the carrying amount of these instruments. The Company has no significant credit risk concentrations.

and dividends, which were not paid in 2015. The Company monitors its liquidity ratios on a current basis. The general liquidity ratio is calculated as the ratio of current assets to current liabilities. The level of the ratio as at the balance sheet date is as follows:

	31 December 2015	31 December 2014
Liquidity ratio	1.57	1.07

new shares or the repurchase and redemption or resale of shares previously issued and on the potential sale of assets to reduce debt. Similarly to other entities in the industry the Company monitors its capital risk by monitoring, among others, debt ratios. The debt ratio is calculated as net debt to the total value of capital. Net debt is calculated as the sum total of loans and borrowings (comprising current and non-current loans and borrowings recognized in the statement of financial position)

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less cash and cash equivalents. The total value of capital is calculated as equity disclosed in the statement of financial position together with net debt.

As at 31 December 2015 and 31 December 2014 the structure of financing ratio was as follows:

	31 December 2015	31 December 2014
Current and non-current		

debt	0.6	119.1
Cash and cash equivalents	(3.6)	(0.2)
Net debt	(3.0)	118.9
Equity	1 907.7	1 914.1
Total equity	1 904.7	2 033.0
Structure of financing ratio	(0.16%)	5.85%

7.3 Judgements and estimates

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that carry a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Deferred income tax

The Management Board is required to assess the probability of utilization of deferred tax assets. As part of the process of financial statements preparation the value of the deferred tax asset and deferred tax liability is estimated based, among other things, on the amount of future tax expense. This process covers an analysis of the current tax expense and of temporary differences arising on the different treatment of a given transaction for tax and accounting purposes, which leads to recognizing deferred tax assets and deferred tax liabilities.

In the process of such assessment, a number of assumptions is adopted with respect to determining the amounts of deferred

tax assets. The above-mentioned estimates take into account tax forecasts, available current strategies concerning the planning of the Company's operations, as well as the dates of crystallization of the individual temporary differences. Since such estimates may change due to external factors, the Company may from time to time adjust the amount of deferred income tax assets, which in turn may affect its financial position. Deferred tax assets in respect of tax losses of individual companies are recognized if, and only if, the analysis performed by the Management Board proves that the assets will be possible to utilize in the future.

Impairment write-downs of assets

The Company tests the individual non-current financial assets for impairment. The principles for determining the fair value of non-current financial assets are described in Note 7.5. The Company's non-current financial assets comprise shares in subsidiaries.

7.4 Segment reporting

The Company operates in one operating segment, i.e. the operations of holding companies. The Management Board

evaluates the Company's operations on the basis of its financial statements.

8. Property, plant and equipment

	Rok zakończony	
	31 December 2015	31 December 2014
As at 1 January 2015	0.0	0.1
Purchase	1.4	0.0
Depreciation	(0.4)	(0.1)
As at the end of the period	1.0	0.0

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9. Shares in subsidiaries

Non-current financial assets	31.12.2015	Disposal	Purchase	Change in impairment write-downs	31.12.2014	Disposal	Purchase	Change in impairment write-downs	01.01.2014
Warszawski Holding Nieruchomości S.A.	1 600.6		10.2	50.3	1 540.1	(353.6)	47.2	92.7	1 753.8
Dalmor S.A.	2.4		1.3		1.1	(104.6)	4.5	(0.3)	101.5
PHN 5 Sp. z o.o.	0.0	(104.6)	0.0		104.6	(353.7)	458.3		
PHN SPV 12 Sp. z o.o.	-		9.0	(9.0)					
PHN 4 Sp. z o.o.	0.1		0.1						
PHN 4 Sp. z o.o. SKA	-					(0.1)			0.1
PHN SPV 33 Sp z o.o.	58.0		58.0						
PHN Property Management Sp. z o. o.	0.1		0.1						
PHN Dewelopment Sp. z o. o.									
PHN Hotel Management Sp. z o. o.									
Marina Molo Rybackie Sp. z o.o.									
Total	1 661.2	(104.6)	78.7	41.3	1 645.8	(812.0)	510.0	92.4	1 855.4

The Company values shares held in subsidiaries at the purchase price, which (in the event of impairment being identified) is adjusted to the estimated recoverable amount determined as the carrying value of net assets adjusted for the fair value measurement of the net assets which are recognized in the books of account at the purchase price less accumulated impairment.

Due to the increase in the fair value of the net assets of the subsidiaries: Warszawski Holding Nieruchomości S.A., in the year ended 31 December 2015 the Company reversed the impairment write-downs for the shares in these companies. The change in the value of shares in subsidiaries comprises write-downs or reversal of write-downs recorded for shares in subsidiaries.

In 2015, 2.1 million shares in the company PHN 5 Sp. z o.o. with a total carrying value of PLN 104.6 million were redeemed. The fair value of the redeemed shares (remuneration for the redeemed shares) amounted to PLN 106.1 million. The gain on the redemption of shares of PLN 1.5 million was recognized in the statement of comprehensive income under "Gain on redemption of shares in subsidiaries".

In 2015, the Company acquired shares in subsidiaries in exchange for the treasury shares issued (for details, see Note 15). The purchase price was determined based on the cost of issue of PHN S.A.'s shares, estimated on the basis of the quotations of PHN S.A. shares on the dates on which the shares in subsidiaries were acquired.

10. Other non-current financial assets

Other non-current financial assets comprise bonds from related entities.

11. Structure of receivables

Struktura należności	31 December 2015			31 December 2014		
	Total	Financial	Non-financial	Total	Financial	Non-financial
Trade receivables and other assets	7.8	6.7	1.1	128.3	127.5	0.8
Trade receivables	3.2	3.2	0.0	0.1	0.1	
Receivables from the State Budget	0.0	0.0	0.0	0.6	0.0	0.6
Prepayments	1.1	0.0	1.1	0.2	0.0	0.2
Receivables from redemption of shares in subsidiaries	0.2	0.2	0.0	127.4	127.4	0.0
Prepayments for properties' purchase	3.2	3.2	0.0			
Other receivables	0.1	0.1	0.0	0.0	0.0	0.0
Income tax receivables	0.0	0.0	0.0	0.0	0.0	0.0
Total receivables and other assets	7.8	6.7	1.1	128.3	127.5	0.8

Accounting policies and notes to the financial statements on pages 12-27 are an integral part of these financial statements

This document is a translation of the annual report for the year 2015 prepared in Polish. In the case of any doubts as regards its interpretation, the Polish version of the report is binding.

As at 31 December 2015 and 31 December 2014, the fair values of financial assets, as disclosed in the statement of financial

position, were similar.

12. Cash and cash equivalents and explanations to the statement of cash flows

Cash in bank bears interest at variable interest rates whose amount depends on the rate of interest on one-day bank deposits. Current deposits are placed for various periods, from one day to one month, depending on the current demand of the Company for cash, and they bear interest at specially determined interest rates. The fair value of cash and cash

equivalents as at 31 December 2015 and 31 December 2014 equals their carrying amount.

The Company had no unutilized credit facilities as at 31 December 2015 and 31 December 2014. Cash and cash equivalents recognized in the financial statements as at the balance sheet dates comprised current bank deposits.

13. Analysis of liabilities

Analysis of liabilities	31 December 2015			31 December 2014		
	Total	Financial	Non-financial	Total	Financial	Non-financial
Current liabilities						
Debt	0.5	0.5	0.0	119.1	119.1	0.0
Loans	0.0	0.0	0.0	119.1	119.1	0.0
Car fleet leases	0.5	0.5	0.0	0.0	0.0	0.0
Trade and other payables	6.3	5.3	1.0	1.4	1.4	0.0
Trade payables	3.1	3.1	0.0	0.3	0.3	0.0
Investment payables	0.4	0.4	0.0	0.0	0.0	0.0
Payables to the State Budget	1.0	0.0	1.0	0.1	0.1	0.0
Other current liabilities	1.8	1.8	0.0	1.0	1.0	0.0
Total current liabilities	6.8	5.8	1.0	120.5	120.5	0.0
Non-current liabilities						
Debt	0.1	0.1	0.0	0.0	0.0	0.0
Car fleet leases	0.1	0.1	0.0	0.0	0.0	0.0
Other non-current liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Total non-current liabilities	0.1	0.1	0.0	0.0	0.0	0.0
Total liabilities	6.9	5.9	1.0	120.5	120.5	0.0

As at 31 December 2015 and 31 December 2014, the fair values of financial liabilities and their carrying amounts, as disclosed in the statement of financial position, were similar.

14. Equity

	31 grudnia 2015	31 grudnia 2014
Number of shares as at 1 January 2015	46 482 044	44 599 947
Share issue	240 703	1 882 097
Number of shares as at 30 September (fully paid)	46 722 747	46 482 044

All shares issued are ordinary shares. The par value of each share is PLN 1. All shares give equal rights to the assets of the Parent Company.

share capital of PLN 469,000 by means of issuing 469,000 C series bearer shares with a par value of PLN 1 each.

The share issue was conducted pursuant to:

- ✓ Resolution No. 3 of the Company's General Shareholders' Meeting of 11 October 2011 on the conditional increase in the share capital of PLN 3,884,000 by means of issuing 3,884,000 C series bearer shares with a par value of PLN 1 each, and
- ✓ Resolution No. 3 of the Company's General Shareholders' Meeting of 16 April 2012 on the conditional increase in the

The shares issued are acquired as a result of exercising rights under A series and B series subscription warrants offered free of charge to those employees of Warszawski Holding Nieruchomości S.A., Intraco S.A., Budexpo Sp. z o.o. and Dalmor S.A. who, in accordance with the provisions of Art. 36 and subsequent of the Commercialization and Privatization Act of 31 August 1996 were entitled to acquire the shares in the respective companies free of charge.

Accounting policies and notes to the financial statements on pages 12-27 are an integral part of these financial statements

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15. Share premium

In 2015, the Company purchased shares in subsidiaries in exchange for own shares issued (for details, see note 15). The acquisition price of these shares was determined at the level of the cost of issue of PHN S.A.'s shares based on the quotation of

PHN S.A.'s shares on the dates when shares in subsidiaries were purchased. The excess of purchase price over the par value of shares of PLN 1 per share was recognized as share premium.

16. Operating income and expenses

Income from the Company's core operations comprised income from management services provided by the Company to Group companies.

Costs of the Company's core operations comprised the cost of management services provided.

17. Finance income

Finance income	Year ended	
	31 December 2015	31 December 2014
Interest income	10.1	0.0
<i>Short-term bank deposits</i>	0.0	0.0
<i>Available-for-sale financial assets</i>	10.0	0.0
<i>Loans</i>	0.1	0.0
Foreign exchange gains	0.2	0.0
Total finance income	10.3	0.0

18. Finance costs

Finance costs comprised interest on loans received from related entities (0,3 mln PLN).

19. Costs by type

	Year ended	
	31 December 2015	31 December 2014
Depreciation and amortization	0.4	0.1
Materials and energy used	0.5	0.0
External services	14.3	2.1
Taxes and fees	0.4	0.2
Wages and salaries and other employee benefits	11.3	4.4
Social insurance and other benefits	2.6	0.0
Other costs by type	0.2	0.1
Total operating expenses	29.7	6.9

20. Appropriation of the Company's profit for 2014

On 30 June 2015, the Annual General Shareholders' Meeting of Polski Holding Nieruchomości S.A. distributed the profit for 2014 of PLN 120.8 million in the following manner:

- ✓ the amount of PLN 60.7 million was appropriated for payment of dividend to the shareholders (PLN 1.3 per share);
- ✓ the amount of PLN 60.1 million was transferred to the Parent Company's supplementary capital.

21. Earnings per share

Basic and diluted earnings per share	Year ended	
	31 December 2015	31 December 2014
Profit attributable to the Shareholders of the Company (in PLN million)	48.5	120.8
Weighted average number of ordinary shares (in million pcs)	46.6	46.0
Basic and diluted earnings per share (in PLN)	PLN 1.04	PLN 2.62

22. Management Board recommendation concerning appropriation of the net profit for 2015

The Company's Management Board has not made a decision yet as to the recommendation concerning the net profit distribution for the year ended 31 December 2015.

23. Capital commitments

The Company had no significant capital commitments as at 31 December 2015 and 31 December 2014.

24. Contingent liabilities

The Company had no significant contingent liabilities as at 31 December 2015 and 31 December 2014.

25. Transactions with related parties

	Year ended	
	31 December 2015	31 December 2014
Revenues from management services	27.0	5.1
Finance income	10.1	0.0
Finance costs	(0.3)	(3.0)
Acquisition of shares in subsidiaries	9.2	458.3
Disposal of shares in subsidiaries	104.6	(458.4)
Redemption of shares of subsidiaries	1.5	(353.7)
	31 December 2015	31 December 2014
Trade receivables	3.2	0.1
Receivables in respect of share redemption	0.2	387.4
Trade payables	(0.3)	0.0
Long-term and short-term debt	0.0	(119.1)

All transactions concluded by the Company with related entities in 2015 and 2014 were concluded on an arm's length basis.

25.1 The parent company of the whole Group

As at 31 December 2015, the Company's parent was the State Treasury. There were no transactions between the Company and the State Treasury both in the financial year ended 31

December 2015 and in the financial year ended 31 December 2014.

25.2 Remuneration of the Management Board and the Supervisory Board

	Year ended	
	31 December 2015	31 December 2014
Remuneration of the Management Board	2.8	2.3
Remuneration of the Supervisory Board	0.2	0.3
Total remuneration of key management members	3.0	2.6

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26. Remuneration of the registered auditor or a registered audit company

The table below presents the remuneration of the registered audit company paid or due for the year ended 31 December

2015 and the year ended 31 December 2014, by type of services:

	Year ended	
	31 December 2015	31 December 2014
Audit and review of financial statements	0.2	0.2
Total	0.2	0.2

The audits and reviews of the financial statements as at and for the years ended 31 December 2015 and 31 December 2014 were performed by a registered audit firm, PricewaterhouseCoopers Sp. z o.o. The agreement

for the audit of the financial statements as at and for the year ended 31 December 2015 was concluded on 26 May 2015.

27. Other information

Repurchase of shares in subsidiaries from holders of non-controlling interests

In 2015, the Company repurchased shares from holders of non-controlling interests in Warszawski Holding Nieruchomości S.A. and Intraco S.A. The repurchase price was determined at the level of PLN 23.19 per 1 share of Warszawski Holding Nieruchomości S.A. and PLN 19.52 per 1 share of Intraco S.A.,

in accordance with a court decision. Holders of non-controlling interests raised an objection to their being deleted from the share register. In the Company's opinion, the objection is groundless

28. Post balance sheet date events

No material events which should have been disclosed in these consolidated financial statements occurred between the balance sheet date and the date of approval of these consolidated financial statements.

These financial statements were approved by the Management Board of the Parent Company on 15 March 2016.

Zbigniew Kulewicz

Vice-President – Member of the Management Board in charge of Property Asset Management

Maciej Jankiewicz

President of the Management Board

Grzegorz Grotek

Responsible for preparing the financial statements

POLSKI HOLDING NIERUCHOMOŚCI S.A.
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2015



POLSKI HOLDING
NIERUCHOMOŚCI S.A.

B. Company's Directors' Report

1. General information about the Company

Due to the fact that the Company's core operations are operations of holding companies, and the Group's functions

are performed by the Company's subsidiaries, the following description relates to the activities of all Group entities.

2. General information about the Group

2.1. The Group

Polski Holding Nieruchomości S.A. ("PHN S.A.") is one of the largest entities in Poland in the commercial real estate sector in terms of portfolio value. The Group's portfolio comprises over 140 properties, separated for business purposes, with a value of approx. PLN 2.3 billion. PHN S.A.'s activities are concentrated in Warsaw and the largest regional cities, including, in Poznań, Tricity, Łódź and Wrocław. The Company has many years' experience in the following sectors: office, retail and logistics, both in property management and in carrying out investment projects.

rigorous standards, thanks to which they appeal to the most demanding customers. Polski Holding Nieruchomości S.A. was established in 2011 as a result of the consolidation of companies owned by the State Treasury, operating in the real estate sector in Poland or holding significant properties in their portfolios. The companies which form part of the Group have made a substantial contribution to the history of post-war architecture in Warsaw. The properties which belong to PHN S.A. are associated with the history of the capital, e.g. the historic Neo-Renaissance Kossakowski Palace at ul. Nowy Świat 19 or Intraco – the very first tower block in Warsaw, erected in 1975 at ul. Stawki 2.

Since 13 February 2013 PHN S.A. has been listed on the Warsaw Stock Exchange. The Company carries out modern commercial projects on its own and in cooperation with top partners with many years' experience and a well-established market position. PHN's projects are characterized by timeless architecture and attention to quality. They meet the most

Taking into account the recognition of new opportunities and potential market risks caused by changes taking place on the real estate market, the activities of Polski Holding Nieruchomości S.A. are as follows:

Polski Holding Nieruchomości S.A. Group

POLSKI HOLDING NIERUCHOMOSCI S.A.	
What? <ul style="list-style-type: none"> • Offices – major part of the real estate portfolio • Logistics – only with international portfolios • Retail – "made to measure" for selected tenants • Apartments – Group locations and risk diversification 	Where? <ul style="list-style-type: none"> <li style="width: 50%;">• Warsaw <li style="width: 50%;">• Upper Silesian urban area <li style="width: 50%;">• Kraków <li style="width: 50%;">• Łódź <li style="width: 50%;">• Tricity <li style="width: 50%;">• Poznań <li style="width: 50%;">• Wrocław
How? <ul style="list-style-type: none"> • Attractive locations • Effective asset management • "Lift the whale and cut its tail off" • Quality of customer relationships • Investment portfolio optimization • Asset turnover • New development projects 	How do we compete? <ul style="list-style-type: none"> • Development activities • Opportunistic M&A transactions (sector-related) • Property management for external partners • Special projects

We build PHN S.A.'s value through:

- Optimal use of real estate potential for our customers' needs
- Changing the structure of the investment portfolio to ensure high return on our shareholders' capital
- Dedication and professionalism of our employees
- Respecting our environment

2.2. The Group in numbers

The Group in numbers as at 31 December 2015

LEASE REVENUE [PLN m]	THE GROUP'S NET PROFIT [PLN m]	PROPERTY PORTFOLIO [NUMBER]
127.4 31.12.2014: 120.8 + 5%	50.8 31.12.2014: 107.8 - 47%	140 31.12.2014: 140 NO CHANGE
In 2015, the Group's lease revenue amounted to PLN 127.4 million compared with PLN 120.8 million in 2014.	In 2015, the Group generated a net profit of PLN 50.8 million compared with PLN 107.8 million in 2014.	As at 31 December 2015, the Group's portfolio comprised a total of 140 properties separated for business purposes.
THE GROUP'S ASSETS [PLN m]	GROSS LEASABLE AREA [sq m]	EMPLOYEES [NUMBER]
2 514.0 31.12.2014: 2 283.4 + 10%	345 665 31.12.2014: 300 967 + 15%	118 31.12.2014: 122 - 3%
As at 31 December 2015, the Group's assets amounted to PLN 2 514.0 million. The main item is investment properties (80% of the assets).	The Group has a total of 345 665 sq m of gross leasable area (office, retail, logistics, residential and other types of space).	As a result of restructuring, the number of employees in the Group was reduced to 118 as at 31 December 2015.

Selected operating and financial data for the years 2012 – 2015

	2015	2014	2013	2012
Lease result	60.1	55.5	72.1	69.5
Profit/loss on development activity	8.7	11.2	9.7	(0.7)
Administrative and sales expenses	1.5	(0.3)	(0.1)	(2.7)
Operating profit (loss)	(38.4)	(38.5)	(46.2)	(54.6)
Net profit on continued activities	(12.1)	12.5	(7.0)	(232.5)
Net profit	50.6	108.0	107.2	(187.8)
Total comprehensive income	50.8	107.8	107.0	(185.8)
Net profit attributable to the equity holders of the parent company	50.6	107.8	107.0	(183.6)
EBITDA	49.1	105.1	100.0	(170.8)
Adjusted EBITDA	53.4	43.1	13.1	(4.7)
Non-current assets	32.3	25.5	35.0	25.2
Investment properties	2 143.8	1 978.9	1 974.8	1 980.9
Property, plant and equipment	2 015.4	1 924.1	1 927.9	1 911.5
Current assets	45.8	22.5	24.6	50.8
Inventories related to development activity	312.4	292.5	465.6	291.6
Trade receivables and other assets	62.2	35.8	65.4	84.3
Cash and cash equivalents	121.4	119.1	182.2	26.9
Total assets	126.5	136.4	217.8	173.9
Finance debt	2 514.0	2 283.4	2 457.8	2 297.6
Deferred tax liabilities	313.0	15.3	1.5	2.0
Total equity	20.4	55.2	148.1	259.9
Equity attributable to the equity holders of the parent company	1 982.7	2 000.7	1 992.7	1 885.7
Non-controlling shares	1 949.8	1 947.1	1 861.7	1 710.5
Net cash from operating activities	32.9	53.6	131.0	175.2
Net cash from investing activities	46.3	15.6	34.2	(24.8)
Net cash from financing activities	(136.9)	(8.7)	10.2	21.7

2.3. Management Board of PHN S.A.

President of the Management Board

Maciej Jankiewicz



Maciej Jankiewicz took up the position on 7 March 2016. He has an MA degree in Law from the Faculty of Law and Administration at the University of Warsaw. He also completed postgraduate studies in real estate management and brokerage at the University of Entrepreneurship and Regional Development in Falenty and postgraduate studies "Development and investment projects" in English at the Real Estate University in Warsaw. Maciej Jankiewicz has practical and theoretical knowledge of management, including law and economics, confirmed by, among other things, the examination he passed for candidates for members of supervisory boards of State-owned companies and the licence he obtained from the Ministry of Infrastructure in the area of real estate management and brokerage. Since 2012 to date, Maciej Jankiewicz has been running his own business in the area of real estate management and brokerage. In 2010-2011, he served as Vice-Chairman of the Supervisory Board of the housing association "Widzewskie TBS" in Łódź. In 2007-2009, he was Member of the Supervisory Board of "Kaskada" Sp. z o.o. in Warsaw. In 2007-2008, he worked as Manager of POC Dipservice (currently Polski Holding Nieruchomości S.A.), and in 2006 he was President of the Management Board of T.O.N. Agro S.A. (currently Polski Holding Nieruchomości S.A.) and Chairman of the Supervisory Board of Agroman Sp. z o.o. In 2004-2006, he served as Director of the Municipal Office of Finance and Education of the Capital City of Warsaw, and in 2001-2003 he held managerial positions on the Central Management Board of Poczta Polska.

Vice-President of the Management Board

Zbigniew Kulewicz



Zbigniew Kulewicz took up the position on 7 March 2016. Since 21 December 2015 to 4 March 2016 he was served as Member of the Supervisory Board, and in the that period he was delegated by the Supervisory Board to temporarily act as Vice-President – Member of the Management Board for Managing Property Assets. Since 2011 to 4 March 2016 Zbigniew Kulewicz has been President of the Management Board of "Nasz Dom" Sp. z o.o. In 2005-2008, he was employed at PKO BP S.A., taking up the following functions: Managing Director of the Administration Center (where his responsibilities included managing the bank's real estate and movable property), Advisor to the President of the Management Board, coordinator (co-author) of the nationwide programme of modernizing bank buildings. In 2005, when serving as President of the Management Board of the housing association "TBS Bemowo Sp. z o.o." in Warsaw, he supervised the construction of a residential estate. In 2002-2004, he worked as Branch Office Director at Wojdyła Budownictwo Sp. z o.o. The results of the Branch Office contributed significantly to the Company's victory in the nationwide ranking of the most dynamic companies, *Business Gazelle 2003*. Up until 2002 he was Liquidator and Receiver of State-owned enterprises. For many years, up until 2000 he worked at the Lower Silesian Voivodeship Office in Wrocław, where he was responsible for corporate governance and ownership transformations in many enterprises and for managing enterprise privatization projects. He is a graduate of the Faculty of Mining at the Wrocław University of Technology. He has also completed a series of training courses in corporate management, company liquidation and reconstruction, finances for managers, and business negotiations.

Member of the Management Board for Finance

Piotr Staroń



Piotr Staroń will take up the position of Member of the Management Board for Finance as from 1 April 2016. Piotr Staroń is a graduate of the University of Insurance and Banking in Warsaw. He also graduated from Bournemouth University, where he gained a Master of Arts Degree in Financial Services. Piotr Staroń has participated in developing and implementing business strategies in such areas as financial, ICT, web, commercialization and investment services in the real estate market. He has many years' experience in supervising and managing the operations of business entities, as well as in designing and implementing organizational structures and operating procedures in these areas. Since 2014 Piotr Staroń has served as President of the Management Board of MaNA Solid Invest Sp. z o.o., and since 2013 he has served as President of the Management Board of NASK 4Innovation Sp. z o.o. In 2010-2012, he worked as Financial Advisor at PGE Energia Jądrowa S.A./EJ 1 Sp. z o.o., whereas in 2009-2011 he was Director of the Investment Department and Member of the Risk Mitigation Committee at Polskie Towarzystwo Ubezpieczeń S.A. He also gained his professional experience at Bank Turystyki S.A., Kredyt Bank S.A., the Farmers' Social Insurance Contributions Fund, Totalizator Sportowy Sp. z o.o., Dom Inwestycyjny Banku Współpracy Europejskiej S.A. and PKP CARGO S.A.

2.4. Supervisory Board of PHN S.A.

Chair of the Supervisory Board

Izabela Felczak-Poturnicka



Izabela Felczak-Poturnicka has been on the Supervisory Board of Polski Holding Nieruchomości S.A. since 29 April 2011. Since 28 July 2015 she has been Chair of the Supervisory Board. On 21 December 2015, she was delegated by the Supervisory Board of PHN S.A. to temporarily perform the duties of President of the Management Board of Polski Holding Nieruchomości S.A. She is a certified internal auditor of ISO 9001 quality management systems. She cooperates with OECD by presenting

Polish experiences in the field of privatization and corporate governance, among other things, as part of "OECD-Southeast Asia Corporate Governance Initiative". Since 2005 she has been working at the Ministry of Treasury. She is currently Head of the Capital Markets Division at the Department of Ownership Transformations and Privatization. The key tasks she has completed include exercising corporate governance over strategic companies and conducting transactions on the capital market, in particular floating GPW S.A., JSW S.A., PZU S.A. and PHN S.A. on the Warsaw Stock Exchange. She was also responsible for preparing alternative privatization procedures and participated in designing system solutions for corporate governance at State-owned companies. As a representative of the State Treasury, she has been on the Supervisory Boards of ZEW Niedzica S.A., MERAZET S.A., Z.Ch. ZACHEM S.A. and MERITUM BANK ICB S.A.

Deputy Chair of the Supervisory Board

Bartłomiej Prus

Bartłomiej Prus took up the position on 28 July 2015. He is a legal advisor in the Legal and Litigation Department at the Ministry of Treasury, where he has been working since 2008. He specializes in civil and economic law. He has represented the State Treasury – the Minister of State Treasury as an agent for litigation in many court proceedings. He currently serves as Deputy Chair of the Supervisory Board of PCO S.A. Previously, he has held, among other things, the positions of Secretary and Chairman of the Supervisory Board of Eurolot S.A., and in 2012-2014 he was Chairman of the Supervisory Board of Zakłady Przemysłu Welnianego "TOMTEX" S.A. He graduated from the Faculty of Law at the University of Rzeszów.

Secretary of the Supervisory Board

Marzena Kusio

Marzena Kusio took up the position on 8 October 2013. She is employed at the Ministry of Treasury. She used to work in the Department of Financial Institutions, Department of Ownership Supervision and Privatization II, and currently she is Division Head in the Department of Ownership Supervision where she coordinates work related to ownership supervision, mainly over public radio and television companies. In 2009-2013, she was Chair of the Supervisory Board of Uzdrowisko Łądek-Długopole S.A., and since 2011 she has been Vice-Chair of the Supervisory Board of Lubelskie Fabryki Mebli S.A. She co-participated in a project on the consolidation of State-owned companies and the establishment of the Polski Holding Nieruchomości S.A. Group, as well as the preparation of the Company for being floated on the Warsaw Stock Exchange. She is a graduate of the Warsaw University of Life Sciences. She has completed Post-graduate Studies on the Methods of Valuation of Companies at the Warsaw School of Economics.

Member of the Supervisory Board

Jacek Chwalenia

Jacek Chwalenia took up the position on 17 February 2016. He has an MA degree in Rehabilitation-Physiotherapy. He has also completed a postgraduate course in management in government and local government administration. He serves as President of the Management Board of PGK EKOM Sp. z o.o. He is a councillor for the Nysa County. In 2006-2015, he was Senior Inspector at Przedsiębiorstwo Gospodarki Komunalnej Marketing i Recycling EKOM Nysa (a public utility). Since 1999 he has been running his own rehabilitation practice.

Member of the Supervisory Board

Mikołaj Handschke

Mikołaj Handschke took up the position on 17 February 2016. He has a degree in Finance and Banking and a PhD in Economics from the Poznań University of Economics and Business. He has authored publications in the area of broadly defined economic transformation processes (capital market, labour market, system transformations). He is a lecturer and a member of the Faculty Board of the Poznań University of Economics and Business, and he has received numerous awards from the Minister of National Education and Sport and the PUEB Chancellor for original and creative academic achievements. He cooperates with many universities as a lecturer in macro- and microeconomics and managerial economics. Since 2013 he has been a member of the Supervisory Board of mBroker Net.

Member of the Supervisory Board

Oliwer Koszowski

Oliwer Koszowski took up the position on 17 February 2016. He is a graduate of the Faculty of Law and Administration at the Jagiellonian University in Kraków. He works as Operations Coordinator and Director of the HR and Administration Department at Walcownia Rur Silesia S.A. In 2012-2013, he was Director of the Scrap Metal Trading Base at KGHM Metraco S.A. in Legnica, and in 2011-2015 he ran his own business under the name of Intendo in Kraków. In 2006-2009, he served as Member of the Management Boards of several companies, where he was responsible for restructuring and business development (Katowicki Węgiel sp. z o.o., Opakomet S.A.). He gained experience in supervising the activities of companies by serving on the Supervisory Boards of PB MADRO S.A., GS Pabianice, and ZPO Opakomet Sp. z o.o.

Member of the Supervisory Board

Jerzy Wal

Jerzy Wal took up the position on 17 February 2016. He has a degree in Administration and Political Science – Public Administration from the Pułtusk Academy of Humanities. He also completed studies at the University of Finance and Management in Warsaw, where he received his MBA degree. In 2007-2015, he served as President of the Management Board of Pułtuskie Przedsiębiorstwo Usług Komunalnych Sp. z o.o. (a public utility) in Pułtusk, where he had previously held the positions of Director and Manager of the Transport and Equipment Department. In 1990-1999, he ran his own business under the name of PPHU GEORGEA. He was Member of the Supervisory Board of Zakład Budżetowy w Winnicy Sp. z o.o.

3. Market environment

The year 2015 proved to be an exceptionally good period on the transaction market in the commercial real estate sector. On the office space market, it was a period of continuation of the dynamic development, where the Warsaw market finished the year with a record volume of lease agreements signed, the highest net absorption in the history of the market and a drop in the vacancy ratio. The warehouse market proved to be very intensive for tenants, investors and developers who recorded a dynamic increase in new supply in the largest logistics areas and on the emerging markets, in the vicinity of smaller regional cities. The residential industry recorded an exceptional interest in the purchase of apartments in the fourth quarter of 2015 and finished the previous year unusually well. The year 2015 was a good period on the transaction market in the commercial real estate sector. The volume of investment projects exceeded EUR 4 billion and was 35% higher than the result for 2014. This is the best result since 2006. The greatest activity of the investors could

be seen in the retail and office space sectors. The total volume of transactions on the retail space market reached the highest level since 2006 of EUR 2.2 billion, which represented over 54% of the value of the finalized purchase/sale agreements on the commercial real estate market in Poland. In 2015, nearly 3 times more was invested in the commercial real estate sector than in 2014. The investors were interested in the most attractive assets such as shopping malls with a dominant position on the market and shopping centres in smaller regional cities. This has resulted in the compression of the capitalization rates in the sector, which currently fluctuate at around 5.50% for the best shopping facilities. The largest transactions included: the purchase of shares in Echo Investment's portfolio by Griffin Real Estate, the acquisition of the Riviera Center in Gdynia by the German fund Union Investment, the purchase of the Stary Browar Center in Poznań by Deutsche Asset & Wealth Management, and the purchase of Bonarka City Center by TPG Real Estate.

Investment market in 2015

Volume of investments	EUR 4 billion
Increase in the volume of investments	35%
Rate of capitalization of shopping malls	5.50%
Transaction on the office market	EUR 1.3 billion
Rate of capitalization on the office market in Warsaw	6.50%

In the office real estate sector, during the year transactions with a value of EUR 1.3 billion were finalized, which represented 33% of the volume of all transactions on the commercial real estate market. Unlike in the previous years, in 2015 the buyers' interest was mainly focused on the regional markets. The value of the agreements signed exceeded 66% of the total volume of office transactions, reaching the highest level in the history of the regional

markets, of EUR 880 million. The dynamic development and potential of the office markets outside Warsaw are reflected both in the growing number of transactions and greater risk appetite among local and foreign investors. The capitalization rates for the best assets in Warsaw ranged from 6.00% to 6.50%, whereas on the regional market they fluctuated at around 7.00%.

Based on: "Commercial market in Poland, Research", Knight Frank 2015.

3.1. Description of the industry

The office market in Warsaw in 2015:

In 2015, the stocks of modern office space in Warsaw amounted to 4.66 million sq m, with approx. 70% being located in districts outside the city centre. The most space can be found in the Upper South (1.31 million sq m) and the City Centre Outskirts (0.87 million sq m). In 2015, over 277 600 sq m of modern office space was commissioned for use across Warsaw, i.e. close to 3% less than a year ago. In consequence, as at the end of December the capital's stocks amounted to nearly 4.66 million sq m. In 2015, the volume of lease transactions significantly exceeded the average values

for the previous years. The net absorption reached a similar record high and was more than 120 000 sq m higher than the average for the previous 5 years, which amounted to 161 500 sq m. The Warsaw market recorded the greatest activity on the lease market in history. In total, throughout the year agreements were signed for a total area of over 836 500 sq m, which was an improvement of over 37% compared with 2014. As a result, the vacancy rate in Warsaw dropped compared with the value recorded in the previous year from 13.3% to 12.3%. This is the second quarterly drop in a row and the lowest value starting from the first quarter of 2014. An equally

large increase (of over 56% compared with 2014) occurred in net absorption whose value amounted to nearly 283 000 sq m on an annual basis. This is the best result in the entire history of the market, which shows that it is undergoing dynamic development. The rental rates for the best office space in central locations did not exceed EUR 24/sq m/month (down EUR 1 per sq m compared with December 2014). In the locations outside the city centre, the average rents amounted to EUR 13-16.5/sq m/month, with the highest rates being

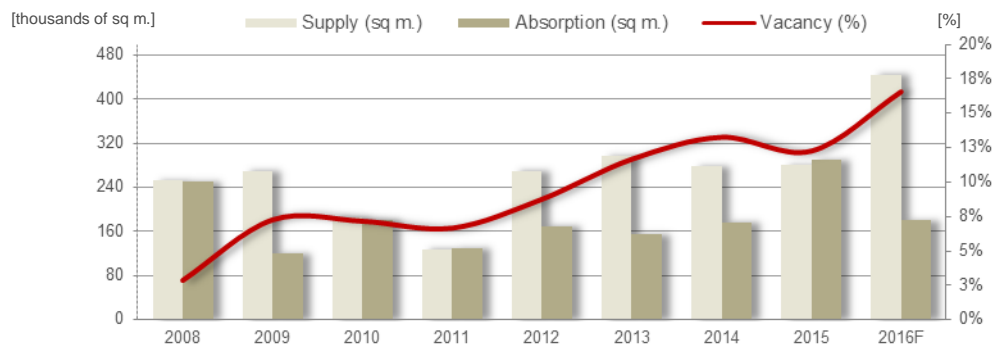
offered by buildings located near the limits of the City Centre Outskirts. The anticipated large supply in 2016 will probably bring about an increase in the vacancy ratio. Thanks to this the market conditions for tenants will improve further, in particular as regards rental rates for space of a lower standard and in buildings located in less prestigious locations.

Based on: Cushman&Wakefield "Property Times. 2015".

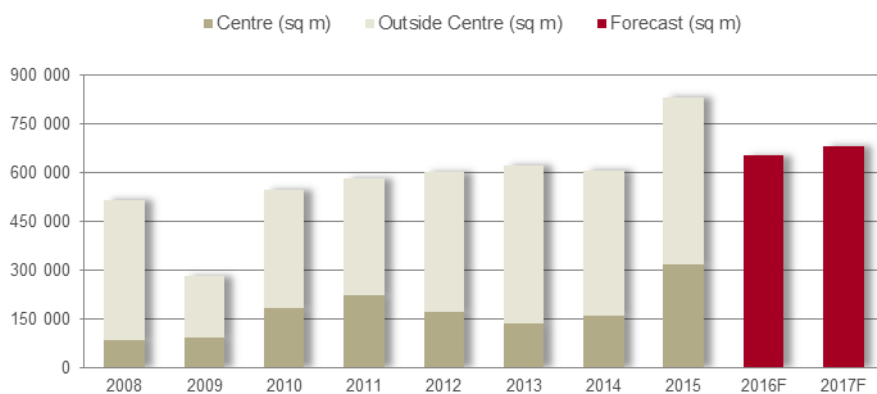
The Warsaw office market in 2015

Office space	4.66 million sq m
New space	277 600 sq m
Vacancies	12.3%
Net absorption	283 000 sq m

Absorption of new space and the vacancy level



Lease of office space, net



Source: Own analysis based on data taken from the CBRE Sp. z o.o. portal.

The office market in the regions in 2015:

The year 2015 on the office market in the regional cities was a period of continued dynamic development. The continued high activity of developers was accompanied by record demand, fuelled mainly by tenants representing the modern business services sector. Furthermore, the rents and the vacancy ratio remained at stable levels, which allows one to anticipate that the high level of economic activity on the market will continue in 2016. The new supply in the previous year reached a high level similar to that in 2014. On the six main regional markets (Kraków, Wrocław, Tricity, Poznań, Katowice, Łódź) nearly 280 000 sq m of space was completed for lease on 31 projects. However, the developers are not slowing down, which is demonstrated by the record volume of space under construction. According to Knight Frank estimates, as at the end of December 2015 approximately 695 000 sq m of space was still under construction for lease on close to 70 projects, of which – according to the investors' schedules – as much as 500 000 sq m may be delivered on the market in 2016. The record volume of lease transactions which accompanies the

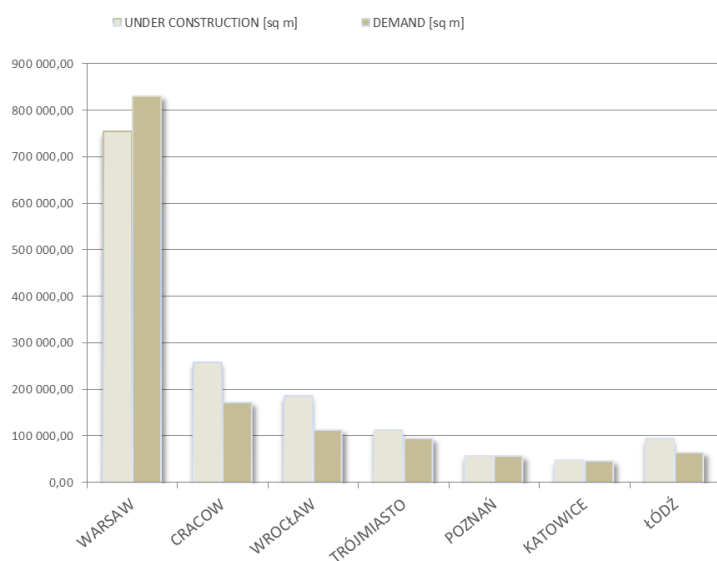
robust supply reflects the tenants' keen interest in the office space in the regional cities. In 2015, 501 700 sq m was leased on the six largest markets, which is much higher than the result recorded a year ago (353 000 sq m) and the average demand level for the preceding 5 years (310 500 sq m). The key role is still played by tenants in the BPO/SSC, IT and financial sectors. It is worth emphasizing that the vast majority of the transactions were new agreements, pre-let agreements and expansions – totalling 76% of the leased space, and the remaining 24% of the transactions were renegotiations. The vacancy ratio in the regional cities, in spite of a forecasted increase, remained at a stable level with a slight downward trend. This is due to the high activity on the part of tenants, thanks to which nearly all of the newly delivered space was absorbed by the market. According to Knight Frank data, the net absorption on the regional markets amounted to nearly 256 000 sq m in 2015, which is similar to the result for the previous year (263 000 sq m).

Based on: "Commercial market in Poland, Research", Knight Frank 2015.

The office market in the regions in 2015

New space	500 000 sq m
Volume of space under construction	695 000 sq m
Lowest rents in Łódź	EUR 8.5 – EUR 13/sq m/month
Highest rents in Wrocław	EUR 10 – EUR 15.5/sq m/month

Office space and demand



Source: Own analysis based on data taken from the CBRE Sp. z o.o. portal.

The warehouse market in Poland in 2015:

The year 2015 proved to be very intensive on the warehouse market in Poland, both for tenants and investors and developers, and such good results are a continuation of the record results achieved in the previous year. Last year a dynamic increase in new supply was recorded in the largest logistics areas and on the emerging markets, in the vicinity of smaller regional cities. At the end of 2015, the total supply of warehouse space in Poland exceeded 9.9 million sq m, which represented a 10% increase compared with the previous year. Modern stocks are located first of all in the seven largest areas of concentration (i.e. Warsaw, Upper Silesia, Greater Poland, Lower Silesia, Central Poland, Tricity and Kraków). However, in step with the improvement in the road infrastructure, the dynamic development of smaller markets for logistics space, i.e. Szczecin, Lublin, Rzeszów or the Kujawy region, was

observed last year. So far, the total supply in these centres amounts to approximately 570 000 sq m, which represents over 5% of the market's total stocks, but we do observe an increasingly fast rate of growth of the emerging markets. On the other hand, the most developed logistics area in Poland is still Warsaw which gathers nearly 30% of all the stocks of warehouse space. The huge demand and the high activity on the part of tenants observed in 2015 translated into the high volume of the new supply. The upward trend was a continuation from the previous year, and over 980 000 sq m was commissioned for use. Nearly 24% of the new supply was provided in Greater Poland, 15% in Upper Silesia and as much as 12% in Lower Silesia.

Based on: "Commercial market in Poland, Research", Knight Frank 2015

The warehouse market in Poland in 2015

Record volume of transactions	over 2.6 million sq m
Lowest vacancy level in history	under 5%
Supply of warehouse space	9.9 million sq m
Increase in the amount of space	10%

The residential market in Poland in 2015:

In 2015, 51.8 thousand apartments were sold, which represents an increase of 20% (of 8.8 thousand apartments) compared with 2014 and of nearly 48% more than in 2007. Low interest rates and prospects for the continuation of the current deposit rates strongly backed the inflow of investors who were buying apartments in order to lease them out. The rate of change in the size of the offer as at the end of 2015

compared with the data from 12 months earlier was different on each of the six markets being analysed (Warsaw, Kraków, Wrocław, Tricity, Poznań and Łódź). In all the cities, the stability of prices, both for the apartments on offer and those put on the market, was affected by the need to adapt to the requirements of the "Apartment for the Young" programme ("MdM"). Compared with 2014 the number of finished apartments not sold went down.

The residential market in Poland in 2015

Apartments sold	51.8 thousand
Apartments put on the market	51.9 thousand

3.2. Basic trends on the real estate market

In 2016, a significant number of completed investment projects will come up on the office real estate market, which will translate into large supply and which will bring about an increase in the vacancy ratio. Thanks to this the market conditions for tenants will improve further, in particular with regards to rental rates for space of a lower standard and in

buildings located in less prestigious locations. Due to the large amount of available space in the existing buildings, and the projects in progress, asking rents have already dropped significantly over the past 12 months of 2015. In the regions (Kraków, Wrocław, Tricity, Poznań, Katowice, Łódź) the rents and the vacancy ratio remained at stable levels, which allows

one to anticipate that the high level of economic activity on the market will continue in 2016. The Warsaw office market remains the tenant's market, which is reflected in the greater flexibility of owners during negotiations. In consequence, the effective rates are 15–30% lower than the asking rates. In step with the increase in available space and the growing competitiveness, rental rates will also drop. A return to the present situation is anticipated no sooner than mid-2017. Due to the increasing number of well-located facilities which are being built in the centre of Warsaw, we may expect a disproportion between the tenants' interest in central zones and their interest in non-central ones, to the advantage of the City Centre. Bearing in mind the anticipated scale of the new supply over 12 months, assuming that in 2016 net absorption will reach the average level for the last 3 years (approximately 200 000 sq m), we may expect an increase in the vacancy ratio to as much as 17% of leasable space at the end of 2016. The satisfactory results of the Warsaw office market (in particular with regards to the volume of lease transactions and the market absorption rate) in 2015 have already produced the first results in the form of information about the planned commencement of the implementation of a number of large-

3.3. PHN Group in comparison with its competitors

In 2015, the office space market in Warsaw gained 23 new office facilities with a total office space of 277 600 sq m. One of these facilities is the office building of Polski Holding Nieruchomości S.A. – Domaniewska Office Hub commissioned for use in July 2015. The space constructed by the Company represents 9.80% of the modern space commissioned for use in Warsaw. In spite of the significant amount of space under construction and drops in rental rates having been recorded, the Company offers a market rate of EUR 15/sq m/month.

Like the other investors on the investment market, apart from the Warsaw market, the Company also focused its activities on the regional markets, including the Poznań and Tricity regional markets by purchasing an A class office building – Andersia

scale projects. Therefore, we may expect that in 2016 the developers' activity will again increase.

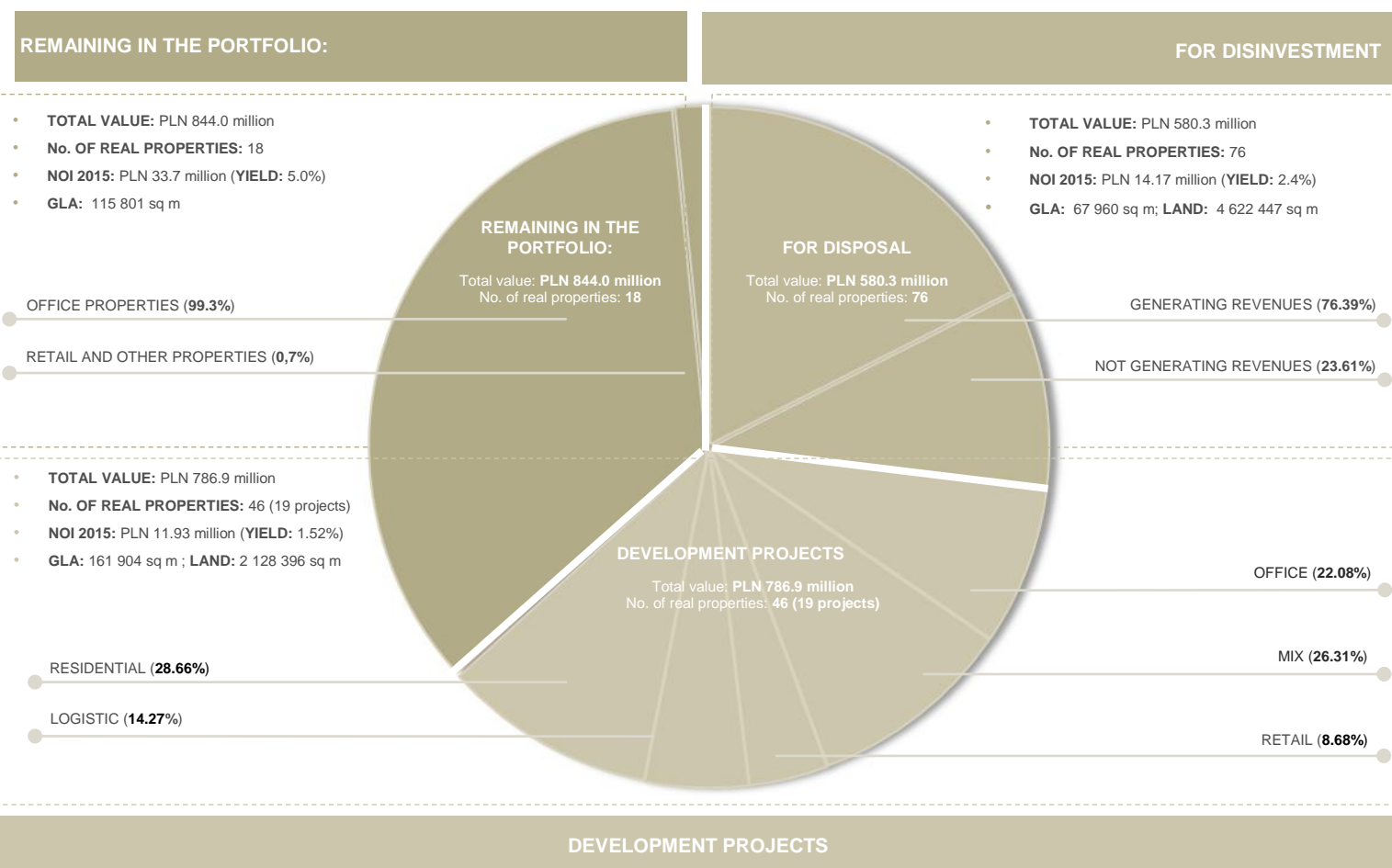
As regards the forecasts about the residential market, there are several reasons to believe that it will be difficult to match the record sales for 2015. It is expected that the "Programme 500 +" will improve the financial position of families with children, and some of them dream about exchanging their first apartment for a larger one. The lending activity will probably subside, but the increase in margins on mortgage loans and the requirement to present a larger own contribution should be partially neutralized by the increase in income and support under the MdM programme. It is true that the said support will decrease gradually, however, the year 2016 should still be similar to the previous one in this regard. Under the scenario which assumes that the Polish economy will continue functioning without any violent disturbances, we may predict that, on the one hand, the sales will still be good in 2016 if lower than in the previous year, and on the other hand – that the supply will remain at the prior year level. The main reason for the large supply will be the willingness to put up a large number of apartments on the market which meet the criteria for being subsidized under the MdM programme.

Business Center in Poznań and by concluding a preliminary agreement for the purchase of the office building Alchemia II in Gdańsk.

As a result of a good relationship between the location and the price along with small buildings surrounded by greenery, and a good connection with Warsaw, the Group succeeded in selling 84 apartments which form part of the Parzniew II investment project in Pruszków. Of the 611 apartments, the last 22 have remained on offer for 2016, some of which have already been booked under preliminary agreements, which means that the project will be completed at the turn of the first and second quarters of 2016.

4. Characteristics of the Group's real estate portfolio

4.1. The Group's real estate portfolio



Fair value

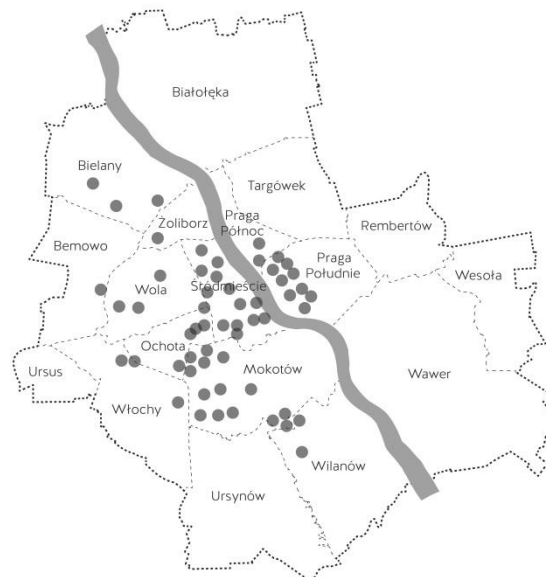
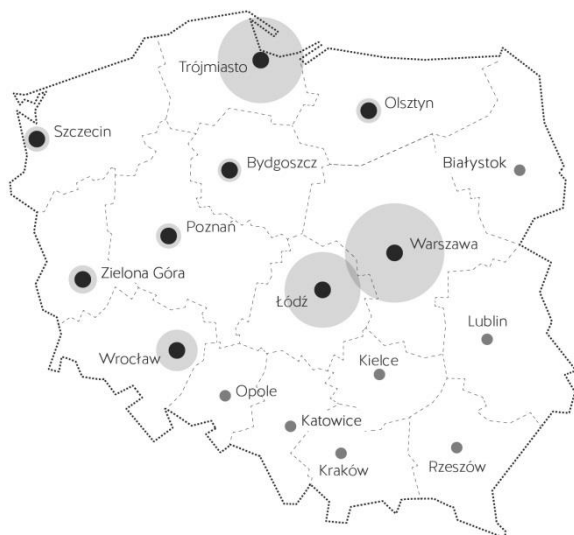
As 31 December 2015 the Group's real estate portfolio comprised 140 separate business properties with a fair value of PLN 2,211.2 million, which were disclosed as assets in the financial statements. The portfolio covered 14 properties with fair value of PLN 155.5 million with legal defects but with high potential for a positive resolution and 2 properties where a joint venture with an external partner is in progress (JV). Additionally, the Group had 19 properties with legal defects with potential for positive resolution insufficient for recognizing them in the financial statements as assets. The fair value of those properties on the assumption that there are no legal defects would be

PLN 115.1 million. The Group also obtained the legal title (perpetual usufruct rights) to the property at ul. Kryniczna 2 in Warsaw. In 2015 the Group reallocated 3 properties (in respect of one of them – a part of it) from the group with legal defects with potential for positive resolution to be recognized in the financial statements as the Group's portfolio assets (see details in Note 8 to the consolidated financial statements). Additionally, the Group separated 5 additional properties for business purposes and re-segmented part of its portfolio. In terms of the actions planned with reference to the properties, the Group has divided its portfolio into the following segments:

Break-down of the real estate portfolio by planned activities

Real properties remaining in the portfolio	18 properties with a fair value of PLN 844.0 million, disclosed in the financial statements at fair value of PLN 814.4 million and in fixed assets (due to being used for own purposes) with a value of PLN 29.6 million
Commercial projects	12 properties with a fair value of PLN 543.9 million on which the Group plans, or is conducting, commercial projects, recognized in the financial statements in investment properties at fair value
Projects carried out with an external partner (JV)	2 properties with a fair value of PLN 27.8 million, recognized in the financial statements indirectly, as a component of the value of shares in a joint venture carried out with an external partner (JV)
Properties for sale	76 properties with a fair value of PLN 580.3 million, recognized in the financial statements in investment properties at fair value of PLN 509.5 million, in assets classified as held for sale at fair value of PLN 57.8 million, in fixed assets at a value of PLN 4.1 million, and in inventories at a value of PLN 3.0 million
Residential projects	<p>32 properties with a fair value of PLN 215.1 million, on which residential projects have been completed or are planned, including:</p> <ul style="list-style-type: none"> ▪ 4 properties with completed projects with a fair value of PLN 12.7 million, including 3 with unsold single apartments, all recognized in the financial statements in inventories in the amount of PLN 11.7 million ▪ 27 real properties earmarked for potential projects with a fair value of PLN 200.9 million recognized in the financial statements in investment properties at a fair value of PLN 147.5 million, in fixed assets in the amount of PLN 11.2 million, and in inventories in the amount of PLN 47.4 million; this group consist of 7 independent projects, one of which covers 21 buildings (separated for business purposes as real properties) ▪ 1 property comprising road plots with a fair value of PLN 1.4 million, recognized in the financial statements in inventories in the amount of PLN 0.1 million

Location of the Group's real properties in Poland and in Warsaw



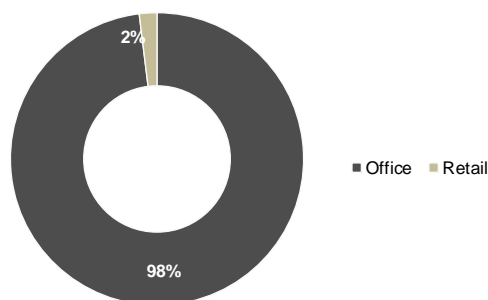
Gross leasable area (GLA) and vacancy ratio

As at 31 December 2015, the Group's real estate portfolio amounted to 345.7 thousand sq m GLA, and the vacancy ratio was 27.3% (calculated as the share of unleased area in the GLA less the area earmarked for the Group's own purposes and the area which is permanently unleaseable). The gross leasable area

of real properties remaining in the portfolio amounted to 115.8 thousand sq m, and the vacancy ratio was 25.4%. The ratio was significantly affected by the fact that the main tenant left the Intraco building, and by the commercialization process of the newly built Domaniewska Office Hub.

Structure of properties remaining in the portfolio by current purpose

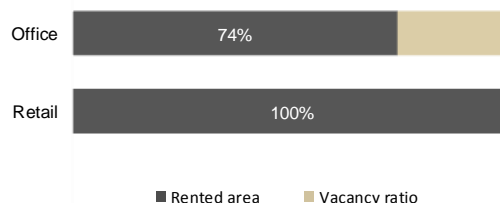
total GLA %



* excluding 19 real properties without regulated legal status

Lease ratio of properties remaining in the portfolio

% of space



Result on the lease (NOI)

In 2015, real properties in the Group's portfolio earned NOI of PLN 59.8 million, including segments: real properties remaining in the portfolio PLN 33.7 million, commercial projects of PLN 9.9 million, real properties designated for sale of PLN 14.2 million,

4.2. Disinvestments and acquisitions

In 2015, the Group disposed of 11 real properties, including in Warsaw: Łowicka, Gruzzińska and Francuska, and in Gdańsk Stągiewna, in Otwock Żurawia, in Dziebędów, in Łask, in Gucin, in Wyczechy and Bukowiec. Moreover, the Group disposed of a part of real properties located in Katowice, Czerwonak and Świebodzin, and up to the date of this report, it sold part of 3

residential projects of PLN 2.0 million. The Group classifies 92 real properties with a fair value of PLN 1,651.4 million as real properties generating revenues from lease.

other real properties. The Group also signed 10 preliminary sale agreements. The Group acquired the Andersia Business Center located in Poznań, ul. Królowej Jadwigi and shares in the Kaskada property in Warsaw (currently, the Group is the sole shareholder of the building).

Disposals and acquisitions performed by PHN S.A. in 2015

DISPOSALS

Continuation of the disinvestment programme

- In 2015, final agreements for the disposal of 11 real properties were signed: Aldony 19, Francuska 2, Gruzzińska 3, Łowicka 44 in Warsaw, Żurawia 13 in Otwock, Stągiewna in Gdańsk, Dziebędów, Gucin, Łask, Bukowiec, Wyczechy and parts of real properties in Katowice, Świebodzin and Czerwonak (with a total value of PLN 30.9 million).
- Furthermore, final agreements on the sale of parts of 3 other real properties were signed: Łężyca, Parzniew – road plots, Podchorążych 39A – parking spaces (with a total value of PLN 1.4 million).
- Also, 10 preliminary and conditional sale agreements were concluded: Filtrowa 47, Humańska 10, Raclawicka 126, Willowa 7, Zawrat 4, Wiejska 20, Konstancińska 13, Prądzyńskiego 21, Świebodzin Hotel, Pruszków Hotel (with a total value of PLN 63.3 million).

“Prestigious Locations” for disinvestment

- In the 1st half of 2015, a programme was initiated for the disposal of real properties in prestigious locations in Warsaw. The project comprises the sale of 18 properties with a total value of approx. PLN 100 million.
- In 2015, final agreements for the sale of 3 real properties covered by the “Prestigious Locations” programme were signed: Aldony 19, Francuska 2 and Gruzzińska 3.
- Also, preliminary sale agreements for another 5 properties from the Group's portfolio, located in the most prestigious locations in Warsaw were signed: Filtrowa 47, Humańska 10, Raclawicka 126, Willowa 7, Zawrat 4.

ACQUISITIONS

Acquisitions performed

- In July 2015, PHN S.A. purchased the Andersia Business Center office building, located in a central location in Poznań. It is a modern, A class building, with GLA of nearly 14 000 sq m, combining office and retail functions. The building is fully leased out to prestigious tenants.
- PHN S.A. purchased from Bank Ochrony Środowiska S.A. commercial premises in the Kaskada City office building in Warsaw, thereby becoming the sole owner of the real property. The newly purchased space was predominantly leased out to a listed company, Polimex-Mostostal S.A. (the space was handed over in August 2015).

Planned acquisitions

- On 17 November 2015, a preliminary agreement for the purchase of Alchemia II real property was signed – a modern A class office building with an area of over 25,500 sq m, located in a central location in Gdańsk. The final agreement is to be signed by 30 September 2016 at the latest, once specific contractual conditions are met. On 14 August 2015, a letter of intent was signed in respect of the purchase of the said property.
- On 8 December 2015, PHN S.A. signed a letter of intent in respect of the purchase of an A class office building with an area of 18 000 sq.m in a prestigious location in Warsaw. The building is fully leased. The property is located in the very heart of Warsaw, which ensures excellent access to public transport.

4.3. Key development projects

The Group implements commercial development projects in order to obtain appropriate high-class assets which will ensure a long-term, stable source of revenues.

In accordance with this strategy, the Group also conducts development projects in the residential sector which are designated for sale.

Key development projects realized by the Group

<p>1. Completed projects</p> <p>Foksal City (Warsaw)</p> <p>In 2014, an occupancy permit for the Foksal City building was obtained. In the 2nd quarter of 2015, the building was fully commercialized and fully leased by the Ministry of Foreign Affairs. The building was handed over to the tenant in September 2015.</p>	<p>2. Completed projects</p> <p>Domaniewska Office HUB (Warsaw)</p> <p>In June 2015, an occupancy permit for the building with a GLA of approx. 27 000 sq m was received, and subsequently premises with approx. 18,500 sq m of office space were leased out to Poczta Polska S.A. and members of its group. At the end of 2015, the lease ratio amounted to approx. 70%.</p>
<p>3. Completed projects</p> <p>Retkinia (Biedronka) (Łódź)</p> <p>In the first half of 2015, the construction work on the first stage of the investment project was completed – a grocery store, which was handed over to the tenant.</p>	<p>4. Pending projects</p> <p>Wrocław Industrial Park (Wrocław)</p> <p>As part of the Wrocław Industrial Park project (JV with SEGRO), on a part of the investment land located at Bierutowska, the construction of a modern warehouse and logistic building is being carried out. On an area of 10.6 ha, facilities with a planned usable area of approx. 40 000 m² are being built. To-date, the 1st stage of approx. 19,500 m² has been completed, under which lease agreements for approx. 16,100 m² have been concluded. The infrastructure for subsequent stages of the investment project is prepared.</p>
<p>5. Pending projects</p> <p>Parzniew Logistic Center (Parzniew near Pruszków)</p> <p>Grupa Kapitałowa Polskiego Holdingu Nieruchomości S.A. is carrying out a development warehouse project in cooperation with its JV partner – Hillwood Group based in the US – the leader on the international logistic properties market. The target size of the logistic park in Parzniew near Pruszków will amount to GLA of approx. 90 000 sq m at several stages. The building permit covers total GLA of approx. 56 000 sq m.</p>	<p>6. Pending projects</p> <p>Molo Rybackie (Gdynia)</p> <p>In 2014, JV agreement was concluded with mLocum in respect of the performance of the first residential stage – Yacht Park at the Molo Rybackie in Gdynia. Design work is pending for the investment project which involves the construction of 6 residential buildings with a usable area of approx. 10 000 m² PUM. Moreover, work on the optimum concept of development for the subsequent residential and office stage of that property, as well as a Yacht Park marina next to the project, has begun.</p>
<p>7. Projects under preparation</p> <p>Prymasa Tysiąclecia (Warsaw)</p> <p>The project assumes creating user-friendly, low-density urban space with access to various service outlets located within the residential complex. In July 2015, an agreement for design work was signed with the "ATELIER 7" studio. The concept of a residential project assumes the construction of 435 modern apartments with usable area of 22,500 sq m. Most of the apartments are to have views on both sides of the building, balconies and small gardens. There will also be service space of 1 500 sq m. The preliminary concept for the office building is related to GLA of 17 000 sq m. An application for a decision on the planning permission was filed for the 1st stage of the residential part.</p>	<p>8. Projects under preparation</p> <p>Stawki 2 (Warsaw)</p> <p>Construction of an A class office building with GLA of approx. 10 000 sq m is planned in place of the existing parking lot, in front of the Intraco building. Simultaneously, at the second stage of the project, modernization of the existing Intraco office building or its demolition is considered. In 2014, an agreement was signed with the JEMS Architekci studio. Design work includes the preparation of a comprehensive design of the facility, as well as analyses, expert opinions and arrangements that are necessary to obtain the building permit, select the general contractor and carry out the project – construction of a new office building. In 2015, the architectural concept for the investment programme was adopted.</p>
<p>9. Projects under preparation</p> <p>Świętokrzyska 36 (City Tower) (Warsaw)</p> <p>In place of the current developed property at Świętokrzyska 36, on a plot of land with an area of approx. 0.6 ha, the Group plans to build a modern high-rise A class office building. Since a station of the Warsaw Underground is located nearby, a direct connection between the facility and the station can be designed. In the 3rd quarter of 2015, an application for a decision on planning permission was filed, and the final decision which allowed the demolition of the existing building was obtained. It is anticipated that the decision on planning permission will be obtained in the 2nd quarter of 2016.</p>	<p>10. Projects under preparation</p> <p>Wilanowska (Warsaw)</p> <p>On a real property with an area of approx. 1.29 ha at al. Wilanowska 372, the construction of two commercial facilities with a hotel function and one with an office function with a total GLA of approx. 23 000 sq m is planned. The Group has signed a franchise agreement with Global Hospitality Licensing ("Marriott International"). The hotel part of the project provides the combination of two of the Marriott International hotel brands – the designer's concept for MOXY with a residential part called RESIDENCE INN. The office building next to the hotel, with a supplementing service function will offer approx. 10 000 sq m. Currently, design work is being carried on in order to obtain planning permission for the project.</p>

11. Projects under preparation

Lewandów Retail Hub (Warsaw)

On some plots of land with a total area of approx. 25.4 ha, the Group plans to construct office as well as retail and service facilities, with a total GLA of approx. 25 000 sq m. At the same time, the Group is negotiating the sale/lease of the remaining parts of the property to retail store chains.

13. Projects under preparation

Warehouse project

In 2015, the Group carried out the process of seeking a partner for developing 7 properties with warehousing potential with a total area of approx. 250 ha. In 2016, the Group plans to gradually prepare the real property for the performance of the initial stages of the warehouse development projects.

15. Planned projects

Bartycka (Warsaw)

On an area of 7.6 ha, the Group plans to build a residential and retail complex with an estimated area of 60 000 sq m. The Optimum Land Development Study has been prepared for the property. Work on changes in the Local Zoning Plan are underway. At the same time, Grupa Kapitałowa Polskiego Holdingu Nieruchomości S.A. is conducting talks with potential tenants in respect of the commercialization of the retail part of the Bartycka project.

17. Planned projects

Instalatorów 7C (Warsaw)

Preliminary conditions for utility connections have been obtained. An agreement with the "22 Architekci" studio has been signed for the preparation of the project documentation. The site development conditions (planning permission) were obtained for multi-family residential buildings with a usable area of approx. 4 000 m² PUM.

12. Projects under preparation

Lewandów (residential complex) (Warsaw)

The "residential Lewandów" real property with an area of approx. 39 600 sq m was separated from the Lewandów property, and assigned the status of a "residential project". The Group plans to erect a residential complex with PUM of approx. 30 000 sq m (approx. 450 apartments), in three stages. Preparations for the infrastructure investments necessary for the construction projects on the property are underway.

14. Planned projects

Retkinia (Biedronka) (Łódź)

In the first half of 2015, the construction work was completed and the first grocery store was transferred to the tenant. The Optimum Land Development Study has been prepared for the entire area, which assumes construction of residential facilities with a total GLA of approx. 280 000 sq m, and retail and service facilities with a total area of approx. 45 000 sq m. Moreover, pre-development work was conducted (inter alia, relating to high-voltage overhead transmission lines) in order to increase the effectiveness of the project through optimal use of the property's area.

16. Planned projects

Wilanów (Warsaw)

The project provides for constructing modern residential buildings within the complex (in place of more than a dozen current residential buildings from the 1980s). The Optimum Land Development Study has been prepared providing for the replacement of the existing development with new buildings. Analyses show that approx. 859 modern apartments could be built with a total area of 46,400 sq m, and together with a shopping mall with an area of 5,700 sq m. Work has begun on changing the Local Zoning Plan and regulating the legal status of some of the plots of land.

18. Planned projects

Jana Pawła II 34 (Warsaw)

A competition for the architectural and urban planning concept for a residential building with service outlets was concluded. The winning project envisions the construction 97 apartments with a total area of approx. 4 000 sq m PUM.

5. The Group's activities

The Group is one of the largest entities (in terms of the market value of its real property portfolio) which own and manage commercial and residential properties in Poland. In order to maximize its profits, the Group restructures its real property portfolio, which include:

- ✓ optimizing the use of real properties that are to be kept in the target portfolio;
- ✓ modernizing and rebuilding some existing properties and developing selected undeveloped plots of land;
- ✓ gradually selling assets not related to the target business profile, such as residential and commercial properties with lower profitability as well as some land properties.

5.1. Commercial space lease market

Lease services offered by the Group comprise:

For management purposes, the Group divides its activities based on its products and services into the following reporting and operating segments:

- ✓ lease of office and retail, warehouse and logistic, residential and other space;
 - ✓ development activities – building and selling residential premises;
 - ✓ hotel activities – providing hotel and catering services.
- ✓ lease of office space;

- ✓ lease of retail space;
- ✓ lease of warehouse and logistics space;
- ✓ lease of residential and other space;
- ✓ additional services – lease of offices for starting a business, lease of 'virtual offices', conference halls, advertising space (walls, façades of buildings and areas on rooftops), parking lots, garages and cellars.

Office space. Office buildings of A, B and C class, residential properties, villas used for office purposes and diplomatic outposts represent the office space portfolio. Customers of the office space segment include various enterprises, both Polish and with foreign capital.

Retail space. The retail areas offered by the Group comprise mainly small areas in commercial and service complexes and in the Shopping Centre at Bartycka 26 in Warsaw. The Group's

5.2. Residential development market

Another object of the Group's activities is the construction and sale of residential properties. The Group sells apartments in a residential complex located on the outskirts of Warsaw, and is

5.3. Hotel market

The Group operates hotels on three properties: Hotel Zgoda, Hotel Wilanów and Hotel in Lipowy Przylądek. The hotel and catering services are provided to both corporate and individual

5.4. Target markets as well as the structure of clients and suppliers

Target markets

The Polish market is the Group's core market. The Group has the most robust position in Warsaw. Moreover, the Group operates in Poznań, Gdynia, Wrocław and Łódź. The Group provides services to a wide range of institutional clients, companies, state institutions and individuals in the segment of lease and rental of properties.

offer is addressed to small and medium-sized entrepreneurs operating in the construction, fashion, catering and pharmaceutical industries.

Logistic space. The biggest logistic area offered by the Group is located in Port Rybacki, Gdynia. The offer is mainly addressed to marine craft. Other locations comprise medium-sized areas which are usually used by office and retail tenants as additional space necessary for their business activities.

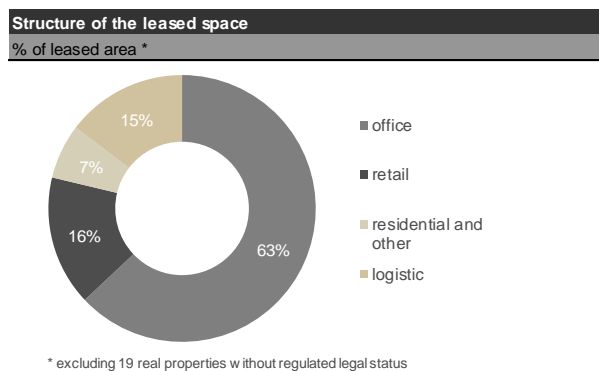
Residential and other space. The residential portfolio comprises villas (mainly used as diplomatic outposts), apartments and residential buildings. Additionally, the Group owns properties used as schools and preschool facilities.

preparing a residential project for the Prymasa Tysiąclecia property. Moreover, plans for constructing apartments in other locations are being analysed.

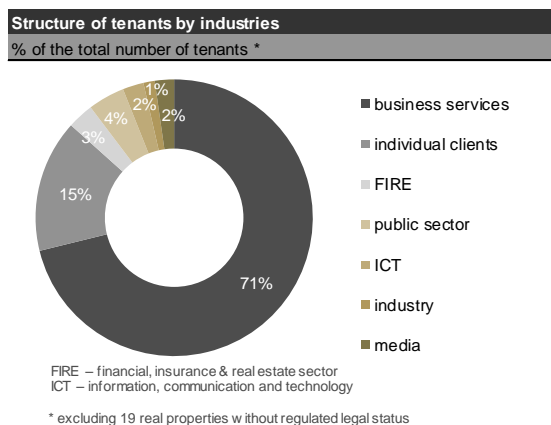
clients. The Group recommenced these types of activities in 2015.

The structure of the Group's tenants and other Group's clients is highly differentiated; therefore, the Group is not exposed to any significant risk associated with a single tenant or group of tenants. As at 31 December 2015, the representatives of the business services sector were the biggest group of tenants.

Structure of the leased space



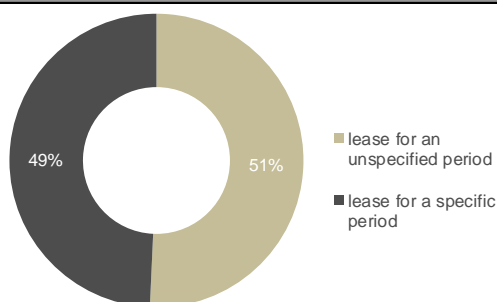
Structure of tenants by industries



Although new lease agreements are usually concluded for a specified period, nearly half of the GLA is leased out for an

Structure of the leased space

Structure of the leased space according to the period of the agreement
% of GLA *



* excluding 19 real properties without regulated legal status

The Group's ten largest tenants in terms of the share in revenues from lease in the year ended 31 December 2015 were (in alphabetical order): Agencja Mienia Wojskowego, ALSTOM Power Sp. z o.o., Biuro Generalnego Inspektora Ochrony Danych Osobowych, Izba Skarbowa w Warszawie, Mars Polska

Structure of clients and suppliers

In 2015, the Group mainly cooperated with suppliers providing the following services:

- ✓ construction (as part of the performance of investment and development projects);
- ✓ repair;
- ✓ supply of utilities;
- ✓ advisory – legal, business, technical advisory;
- ✓ real estate administration;

6. The Group's strategy and development plans

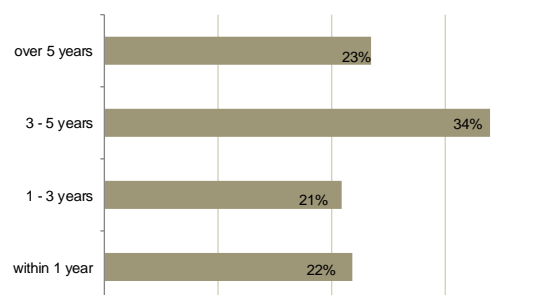
6.1. Strategy of PHN S.A. until 2023 - "Building value"

Due to the fact that new opportunities and potential market threats were identified as a result of changes on the real estate market, and due to the need to intensify the process of the building value of PHN S.A. in the context of competition, on 10 September 2014, the Company's Supervisory Board confirmed the updated, long-term strategy of Polski Holding Nieruchomości S.A. to 2023 – "Building value", which is based on the portfolio, and the effectiveness of managing the Company's assets. The strategy is aimed at (i) increasing, by 2023, the value of the Company's net assets by nearly 75%, more than a half of which could be paid out as dividends, and (ii) further improvement of the quality of the portfolio and effectiveness of managing assets which were the basis for an increase in capital gains for the Company's shareholders.

unspecified period. The tenants' structure by lease term is presented on the following two graphs:

Structure of tenants by industries

Structure of the leased space according to the lease period
% of the space leased for a specific period



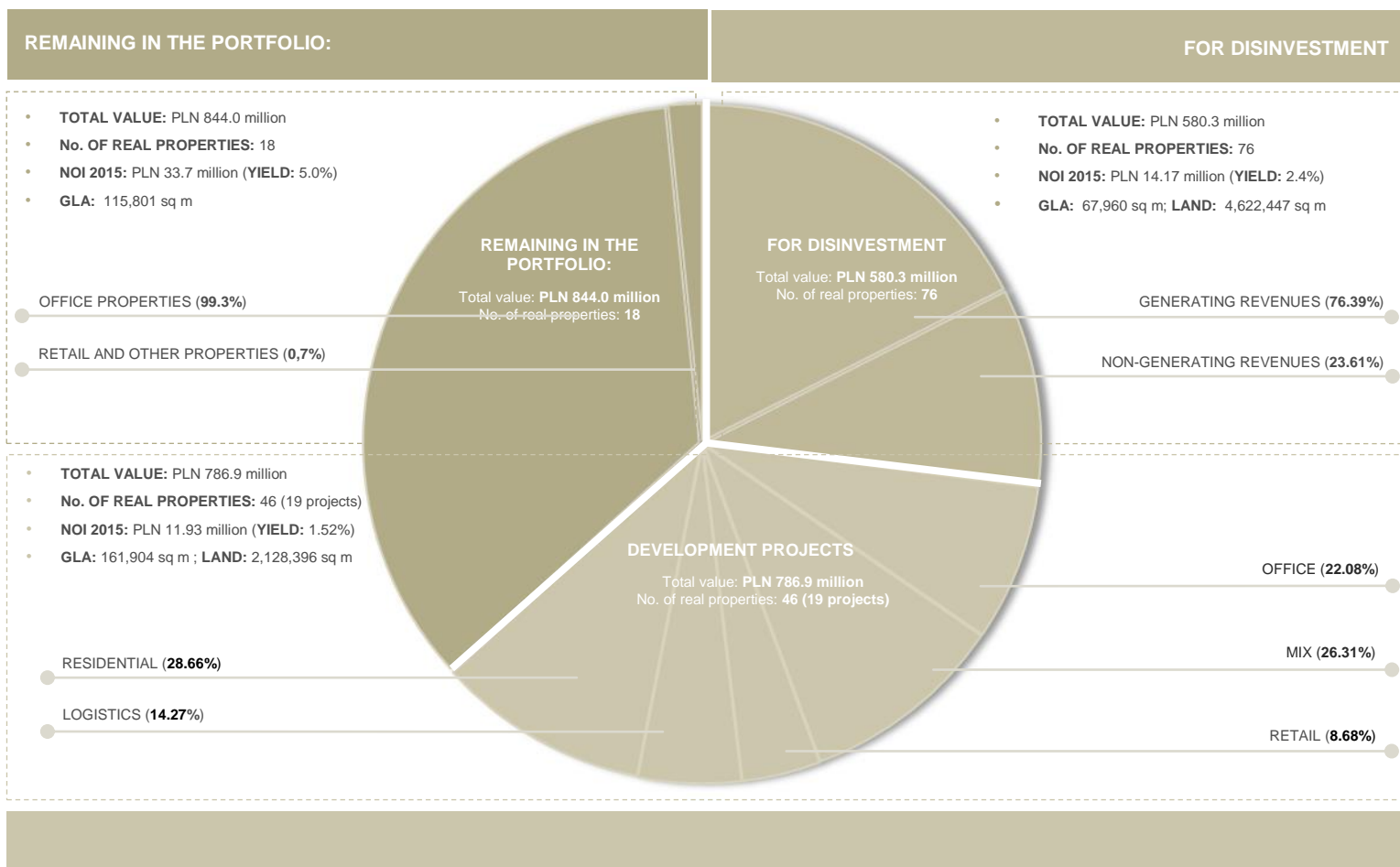
Sp. z o.o., McFit Polska Sp. z o.o., Nordtechnik Sp. z o.o., Poczta Polska S.A., Stowarzyszenie Zarządzające Liceum Francuskim w Warszawie, Żabka Polska Sp. z o.o., which in aggregate accounted for 17.5% of consolidated lease revenues.

- ✓ cleaning;
- ✓ security.

The broad range of suppliers means that the Group does not depend on a single supplier. In 2015, turnover from Unibep S.A (general contractor for one of the Group's investment projects) exceeded 10% of the Group's revenues. The turnover with this counterparty amounted to PLN 83.7 million.

The strategy of Polski Holding Nieruchomości S.A. assumes building the value of the portfolio through the optimum utilization of the potential of the real properties – *Capital Recycling*. The Company is continuously improving its effectiveness, liquidating assets which do not fit into the target portfolio structure or generate insufficient revenue, and invests the resulting funds in high-yield modern commercial projects conducted on its own or purchased. The quality of the portfolio and effectiveness of asset management are aimed at ensuring a constant high return on capital for the shareholders of PHN S.A. The Company finalized the restructuring process by the end of 2015, and it plans to complete the restructuring of its investment portfolio by the end of 2023.

Capital Recycling in PHN S.A.



Capital Recycling is aimed at changing low-yield properties (yield of 2.5%) with limited refinancing ability into profitable properties (yield of 6%+) with a capacity for external financing

6.2. Implementation of the strategy

Building the Company's value for the shareholders of PHN S.A.

The strategy of Polski Holding Nieruchomości S.A. provides for building the Company's value through optimum use of the potential of the real properties for the clients' needs, changing the structure of the investment portfolio to ensure high yield on investments, the involvement and professional approach of the management team and staff, as well as respect for the environment. In 2015, the restructuring process was completed, which comprised changes in the structure of the Group, allocation of properties to special purpose vehicles, centralization of the management functions at the holding level, and reducing the number of employees to 118 FTE as at 31 December 2015. Currently, the Company is focusing on further optimization of its real property portfolio and on

(even up to 75%). The leverage effect means multiplying return on the capital engaged (even more than tenfold).

implementing new solutions aimed at maximizing its economic effectiveness. Further optimization of the real property portfolio assumes completing the pending and planned development projects, finalizing the divestment programme, and new acquisitions for the property portfolio. The Company plans to manage its assets effectively, focusing on maximizing income from each of them, on the quality of client relations, and by the selective development of its residential activities. Moreover, the Company plans to enter into opportunistic M&A transactions, increasing the profitability of its property portfolio, manage real properties for external partners, and also carry out special projects, aimed at new sectors and groups of clients.

The assumed increase in the value of PHN S.A.

The Group has the potential to increase the value of its net assets by nearly 75% by 2023, as a result of the implementation of the new strategy, of which more than one half could be paid to shareholders as dividends. Over PLN 1 billion can be earmarked for purchase of real properties generating lease revenues. The strategy also assumes the possibility of increasing, by 2023, the value of the property portfolio to PLN 5.7 billion from the current PLN 2.0 billion (an increase of

185%). It is possible for the Company to obtain a further significant increase in effectiveness, including, among other things, an increase in the yield from real properties to a level over 6% and a decrease in the ratio of administrative costs to the value of real properties to 0.7%. The Group also has potential for increasing the level of external financing up to LTV of approx. 50%.

Current effects of PHN S.A.'s strategy

As a result of the activities conducted in 2015, Polski Holding Nieruchomości S.A. recorded a systematic increase in the operating effectiveness of the main business segment – namely the lease of real properties – an increase in the result on the lease and margins. Due to the restructuring of its operations,

including centralization of management and a reduction in the number of employees, the company significantly reduced costs of administration and sales. A more than twofold reduction in wages and salaries was possible due to optimizing the employment level.

Anticipated effects of PHN S.A.'s strategy – progress

Effects of the strategy	2014	2015		2023
	31.12.2014	31.12.2015		Target
Fair value of properties [PLN billion]	2.0	2.2	✓	5.7
Acquisitions [PLN billion]	0.0	0.2	✓	>1.0
LTV level [%] ¹⁾	0.8	14.2	✓	50.0
YIELD [%] ²⁾	4.1	5.0	✓	6.0 +
SGA* / GAV** [%] ³⁾	1.6	1.6	✓	0.7
Increase in net assets [%] ⁴⁾	5.7	8.4	✓	75.0

1) Debt/Fair value of properties

2) YIELD (calculated as a ratio of the result of the lease to the value of the property of the remaining in the portfolio segment)

3) SGA – selling, general & administrative expenses; GAV – gross asset value – value of investment assets managed

4) Generated net profit

Development and effects of the restructuring of PHN S.A. over years

Effects of the strategy	2011	2015
Gross result on lease [PLN million]	51.6	60.1
Administrative costs [PLN million] ¹⁾	49.3	38.4
Employees [number]	744	118
Adjusted EBITDA [PLN million] ²⁾	19.4	32.3

1) Adjusted for one-off expenses (the costs of the Group's privatization and restructuring)

2) EBITDA adjusted for one-off expenses (the costs of the Group's privatization and restructuring), costs of severance pay for employees made redundant, a provision for damages payable to tenants receiving premises with a delay and for guarantee repairs, change in the provision for claims relating to previous years, refunded civil law activities tax and use of properties without a contract.

Restructuring of the portfolio of properties remaining in the portfolio in 2011 – 2015

Effects of the strategy	2011	2014	2015
Number of real properties	42	22	17
A class office properties	0	1	3
B class office properties	2	2	2
Office premises	6	4	2
Service premises	4	2	2
Villas	12	2	1
Tenements	6	6	6
Apartment blocks	12	5	1

In 2011 (after creating Capital Group), the structure of real properties remaining in the portfolio was insufficient to effectively compete on the market of modern commercial space. Subsequently, in 2014, the effects of activities aimed at organizing the portfolio, and in 2015 a dynamic growth in the

share of modern A class space in the Company's properties portfolio could be seen, as well as a considerable decrease in the number of villas and apartment blocks, which are not connected with the Group's target property portfolio.

6.3. Anticipated development of the Group

Grupa Kapitałowa Polskiego Holdingu Nieruchomości S.A. focuses its asset management activities on actions aimed at achieving the strategic objective, namely ensuring higher sustainable net operating profit. This objective can be achieved by appropriate management of the portfolio of core properties generating lease revenues and a further increase in the value of properties portfolio due to the implementation of the investment programme. The middle- and long-term strategic objective of the Group is to increase the Group's net operating profit generated by the target investment portfolio to the market level. An increase in operating profit will be possible through improvement of operating profit on real properties remaining in the portfolio, implementation of own new investment projects, purchase of new and commercialized real properties, and sale of properties which do not fit into the target operating model.

clients and attract new ones. The Group seeks new stable tenants, in particular corporate ones. As part of the restructuring, all supporting services in respect of current management and maintenance of real properties and facilities were outsourced to specialist external entities.

The goal of the Group is to further improve the operating effectiveness by continuing restructuring activities to optimize its corporate structure and cost base. The Group is implementing the corporate structure reorganization programme under which, among other things, it has partly reduced the deferred tax provision which is calculated in the financial statements based on amortized cost and the book value of a given real property as at the reporting date. At the same time, the Group will adjust its organizational structure to the market standards (consolidation of selected entities, allocation of assets to special purpose vehicles, provision of services by people employed in service companies).

The operational implementation of the strategy in respect of real properties which remain in the portfolio will be effected, among other things, by extending lease agreements which were concluded on favourable conditions. The Group tries to conclude lease agreements for at least 5 years for selected properties, in order to increase the tenant base and to support uninterrupted periods of lease. Part of the costs of maintaining the properties is gradually transferred on to the tenants. The Group encourages the existing tenants to increase space leased by them. Repairs and modernization of the space are conducted, which increases the standard and allows to retain the existing

The Group will aim to increase the share of financing of assets with external capital in order to increase the profitability of own capital. This strategy will be followed primarily in respect of real properties purchased and new investment projects. At the same time, the model of seeking business partners for joint ventures and hedging the Group against exchange rate fluctuations will be continued.

Anticipated effects of the strategy up to 2023

INCREASE IN THE PROPERTIES VALUE	OUTLAYS ON ACQUISITION	LTV LEVEL
PLN 5.7 billion	> PLN 1 billion	50%
The potential to increase the value of the properties portfolio by 2023, from PLN 2.0 billion to PLN 5.7 billion (an increase of 185%).	Potential for earmarking over PLN 1 billion for the purchase of modern office space generating lease revenues.	Potential to increase the amount of external financing to an LTV level of approx. 50%.
INCREASE IN NET ASSETS	YIELD	SGA* / GAV**
+ 75%	6% +	0.7%
The potential to increase the value of net assets by nearly 75%, by 2023, of which more than one half could be distributed as dividends.	Potential for an increase in profitability of the properties portfolio (yield) to the level of 6% +.	Potential to increase operating effectiveness, measured by a decrease in the ratio of administrative and selling costs to the value of real properties, to 0.7%.

The implementation of the Company's strategy assumes fundamental changes in the structure of net profit by generating

results from operating activities mainly from the lease, instead of the existing one-off effects of changes in the Group structure.

6.4. Evaluation of the possibility to realize the investment assumptions

Grupa Kapitałowa Polskiego Holdingu Nieruchomości S.A. has full capacity to implement the planned investment goals. Projects will be financed from own funds and from external sources of financing, including, e.g. bank loans, issue of bonds. An external source of financing will be selected each time depending on the specific investment project. One of the sources of external capital used in financing new investment projects will be proceeds from the sale of real properties.

Moreover, the Group intends to perform the largest commercial projects as joint ventures with its partners. It is anticipated that in such cases, investment outlays related to specific commercial projects will be incurred by the Group and its JV partners.

7. Major events in 2015

13.01.2015

Signing a letter of intent on the purchase of ABC

On 13 January 2015, Polski Holding Nieruchomości S.A. signed a letter of intent in respect of the purchase of a modern A class office building – Andersia Business Centre, with an area of approx. 15 000 sq m, located in the centre of Poznań. The purchase of this investment property is aimed at increasing the share of modern commercial space in PHN S.A.'s properties portfolio.

23.01.2015

Signing JV agreement on Parzniew Logistic Hub

PHN S.A. and a company from the Group (PHN SPV 4 Sp. z o.o.) signed a Joint Venture agreement with Parzniew Partners B.V. – a company established by Menard Doswell & Co. and Hillwood Europe, leaders on the international logistic properties market. The agreement is related to the construction of a modern warehousing complex, Parzniew Logistic Hub, which will be established in the Brwinów commune, near Pruszków, near the major motorway junctions (A2) of the Warsaw agglomeration – Konotopa and Pruszków.

06.02.2015

Election of the Vice-President of the Management Board

By resolution adopted on 6 February 2015, the Company's Supervisory Board appointed Mr Mateusz Matejewski Vice-President – Member of the Management Board for Property Asset Management, as of 6 February 2015.

11.05.2015

Commercialization of the Foksal City office building

An A class office building – Foksal City has been fully commercialized. The Ministry of Foreign Affairs moved into the building in September 2015. The office building is located in the very heart of Warsaw, near the Trakt Królewski, and is one of the most important and most conspicuous of the Company's investments.

12.05.2015

Concluding a partnership agreement with SARP

On 12 May 2015, Polski Holding Nieruchomości S.A. signed a partnership agreement with the Association of Polish Architects SARP to help promote ambitious architectural initiatives in Warsaw and elsewhere in Poland. Cooperation with SARP is consistent with the Company's long-term strategy and corresponds to the nature of PHN's development projects with their outstanding, timeless architecture and high standard solutions.

02.06.2015

Leasing newly acquired space in the Kaskada City

Polski Holding Nieruchomości S.A. purchased from Bank Ochrony Środowiska S.A. commercial premises in the Kaskada City office building in Warsaw, thereby becoming the sole owner of the real property. The newly purchased space was predominantly leased out to a listed company, Polimex-Mostostal S.A. The Company's office is also located in Kaskada City.

01.07.2015

The GSM decided on the distribution of a dividend of PLN 1.3 per share

The General Shareholders' Meeting of Polski Holding Nieruchomości S.A. decided to earmark half of the profit for 2014 for distribution of dividend to the shareholders. The dividend amounted to PLN 1.3 per share. The remaining profit was earmarked for supplementary capital and will be used, inter alia, for the performance of the Company's new development projects.

08.07.2015

Occupancy permit for Domaniewska Office Hub

Domaniewska Office Hub, the flagship office investment project of Polski Holding Nieruchomości S.A., located at the heart of the business sector of the Mokotów district, was completed, and received an occupancy permit. The investment project accepted the first tenant and it became the address of the headquarters of Poczta Polska.

14.08.2015

Signing a letter of intent on the purchase of Alchemia II

On 14 August 2015, Polski Holding Nieruchomości S.A. signed a letter of intent in respect of the purchase of a modern A class office building with an area of approx. 25 000 sq m, located in the centre of Gdańsk. The planned acquisition is an element of PHN's strategy and is aimed at increasing the share of modern commercial space in the Company's portfolio.

19.10.2015

Distinction in the competition for The Best Annual Report 2015

Polski Holding Nieruchomości S.A. was distinguished in the 10th competition for The Best Annual Report 2014, organized by the Accounting and Tax Institute, for the best début and a synthetic and clear marketing report. In the competition for The Best Annual Report companies take which prepare consolidated annual reports in accordance with IFRS and IAS. The initiative contributes to reinforcing good financial reporting practices in public companies, which helps increase the safety of the capital market in Poland.

18.05.2015

Start of the Prestigious Locations project

Polski Holding Nieruchomości S.A. has initiated the sale of carefully selected properties from the Group's portfolio, located in the most prestigious locations in Warsaw. The project covers eighteen villas with high historical value and a total value of approx. PLN 100 million. The offer is addressed to small and medium-sized companies seeking locations for prestigious offices, and to individuals who wish to buy a unique urban residence.

11.06.2015

Extending the lease agreement with Poczta Polska in DOH

Polski Holding Nieruchomości S.A. and Poczta Polska S.A. signed an annex extending the agreement on the lease of space at Domaniewska Office Hub – the flagship office investment located at the heart of the business sector of the Mokotów district. Poczta Polska occupied nearly 70 percent of the total area of the investment.

01.07.2015

Purchase of the Andersia Business Center office building

PHN S.A. and Von der Heyden Group (VDHG) concluded a transaction as a result of which PHN S.A. purchased shares in Andersia Business Centre Sp. z o.o. Andersia Business Center Sp. z o.o. owns a modern A class building – Andersia Business Center (ABC), which combines the office and retail functions and is located at the very heart of Poznań's commercial district. The building has been fully leased out to prestigious tenants.

07.08.2015

Terminating the agreement with Hochtief for the construction of the City Tower

Polski Holding Nieruchomości and the Hochtief Group terminated cooperation agreements related to building a high-rise building, City Tower, on the plot of land at Świętokrzyska 36 in the Warsaw Central Business Area. PHN plans to continue the project on its own.

02.10.2015

BREEAM Excellent certificate for DOH

The modern office complex Domaniewska Office Hub, the most important investment project of Polski Holding Nieruchomości S.A. Completed in 2015, located at the heart of the business sector of the Mokotów district, was awarded a prestigious BREEAM certificate at the Excellent level. BREEAM is the leading worldwide method of designing and a criterion for the evaluation of sustainable construction projects.

02.12.2015

Signing agreements with Marriott International

Grupa Kapitałowa Polskiego Holdingu Nieruchomości S.A. signed two agreements with Global Hospitality Licensing ("Marriott International") relating to the Wilanowska Project. The hotel part of the project provides for the combination of two brands of the Marriott International hotel network – the designer's concept of MOXY with the residential part called RESIDENCE INN – which is the leader in the segment of facilities designated for longer stays.

08.12.2015

Signing a letter of intent on the purchase of an office building

Polski Holding Nieruchomości S.A. signed a letter of intent in respect of the purchase of an A class office building in a prestigious location in Warsaw. The planned acquisition is an element of PHN's strategy and is aimed at increasing the share of modern commercial space in the Company's portfolio. The building with an area of 18 000 sq m is fully leased. The property is located at the very heart of Warsaw, which ensures excellent access to public transport.

16.12.2015

Alchemia II awarded the title of "The best office building"

Alchemia II in Gdańsk became the best new office building of the year in Poland. In the 6th competition, the Eurobuild Awards were granted by a jury consisting of more than a dozen jurors. As anticipated, the building will be included in the portfolio of real properties of Polski Holding Nieruchomości S.A. in the first half of 2016.

09.12.2015

Performance of the Prestigious Locations project

On 9 December 2015, Polski Holding Nieruchomości S.A. signed preliminary sale agreements for another four real properties in the Group's portfolio, in the most prestigious locations in Warsaw – at Humańska 10, Raclawicka 126, Willowa 7 and Zawrat 4. At the same time, advanced talks are underway regarding the sale of other attractive real properties covered by the Prestigious Locations project – properties for sale.

21.12.2015

Changes in the Company's Management Board and Supervisory Board

On 21 December 2015, Mr Zbigniew Kulewicz was appointed a member of the Company's Supervisory Board. At the same time, the Company's Supervisory Board dismissed Mr Artur Lebiecki, Mr Mateusz Matejewski and Mr Włodzimierz Stasiak from the Management Board. Moreover, the Company's Supervisory Board delegated the Chair of the Supervisory Board, Ms Izabela Felczak-Poturnicka to the temporary function of President of the Management Board, and Member of the Supervisory Board, and Mr Zbigniew Kulewicz to the temporary function of Vice-President of the Management Board.

8. Financial situation

8.1. Analysis of the statement of financial position

As at 31 December 2015, the Company's assets amounted to PLN 1 916.6 million as compared to PLN 2 034.9 million as at 31 December 2014 (a decrease of 5.8%). Non-current assets amounted to PLN 1 905.42 million and represented 99.4% of total assets, which comprised mainly non-current financial assets, i.e. shares in subsidiaries of PLN 1 661.2 million and other non-current financial assets of PLN 242.3 million. Current assets comprised mainly trade receivables and other assets. The amount of non-current assets at the end of 2015 was the same as in 2014. The decrease in the balance of current assets,

on the other hand, was due to a decrease in the amount of receivables, mainly in respect of the redemption of shares in subsidiaries, of PLN 127.4 million, which was offset with an increase in advances for the purchase of real estate of PLN 3.2 million.

The Company's equity as at 31 December 2015 amounted to PLN 1 907.7 million, compared to PLN 1 914.1 million in the previous year. This change was due to the net profit of PLN 48.5 million earned in 2015, payment of dividend to the shareholders of PLN 60.7 million, and issue of shares of PLN 5.8 million.

8.2. Analysis of the statement of comprehensive income

In the financial year 2015, the Company earned a net profit of PLN 48.5 million, compared to PLN 120.8 million in the previous year.

In both years, the change in the value of shares in subsidiaries had the biggest effect on the net profit. In 2015, it amounted to

PLN 41.3 million compared to PLN 92.4 million in 2014. The administrative and selling expenses amounted to PLN 5.5 million in 2015 (2014: PLN 4.3 million). This increase was mainly due to recognizing additional costs in connection with the dismissal of Management Board members.

8.3. Analysis of the statement of cash flows

In 2015, the Company generated negative net cash flows from operating activities of PLN 4.2 million, which was mainly due to the repayment of liabilities. Positive net cash flows from investing activities of PLN 188.1 million generated in 2015 comprised amounts received for redeemed shares in subsidiaries of PLN 127.4 million and proceeds from financial instruments of PLN 138.7 million. Negative cash flows from

financing activities of PLN 180.5 million comprised the repayment of loans of PLN 119.4 million, the payment of dividend of PLN 60.7 million and repayment of financial liabilities resulting from car fleet lease.

8.4. Assessment of financial resources management

Profitability ratios

	31 December 2015	31 December 2014
Return on total assets [1]	2.5%	5.9%
Return on equity [2]	2.5%	6.3%

[1] Net profit / Assets

[2] Net profit / Equity

The decrease in the ratios in 2015 compared with 2014 was mainly due to a lower net profit (PLN 48.5 million in 2015 compared to PLN 120.8 million in 2014).

Liquidity ratios

	31 December 2015	31 December 2014
Current liquidity ratio [1]	0.5	1.1
Quick liquidity ratio [2]	1.6	1.1

[1] Current financial assets and cash and cash equivalents / Current liabilities

[2] Current assets – inventories / Current liabilities

8.5. Differences between actual financial results and forecasts

The Company did not publish any forecasts of its results.

The current liquidity ratio as at 31 December 2015 amounted to 0.5 compared to 1.1 as at 31 December 2014, and the quick liquidity ratio amounted to 1.6 compared to 1.1 as at 31 December 2014. The change in the ratios is mainly due to a decrease in the balance of current liabilities.

Liability ratios

	31 December 2015	31 December 2014
Debt ratio [1]	0.5%	5.9%
Assets to equity ratio [2]	99.5%	94.1%

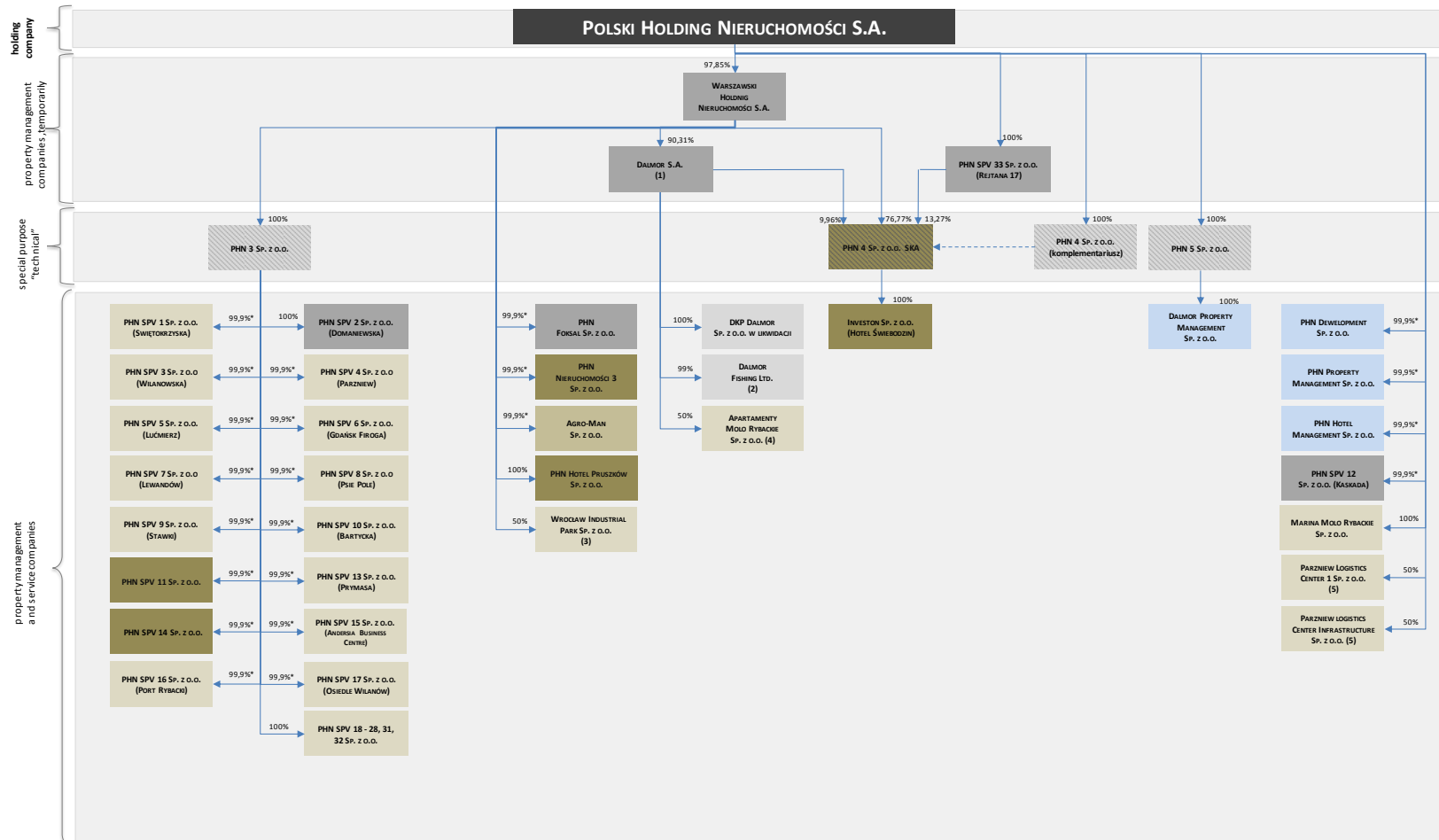
[1] (Assets - equity) / Assets

[2] Equity / Assets

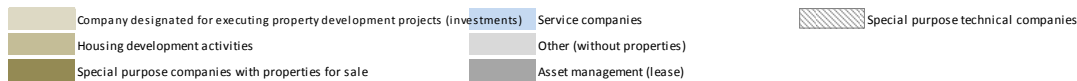
The Company's debt ratio as at 31 December 2015 and as at 31 December 2014 was low and amounted to 0.5% and 5.9%, respectively. The decrease in this ratio is due to a decrease in the amount of receivables for redeemed shares in subsidiaries. At the same time, the Company maintained a high level of assets to equity ratio: 99.5% as at 31 December 2015 and 94.1% as at 31 December 2014.

9. Organization of the Group

9.1. Group structure



* 1 share of PHN 4 Sp. z o.o.



- (1) share of PHN S.A. – 2.76% (as at 31/12/2015)
- (2) 1% Alliance Trust Company LTD
- (3) JV with Segro B.V. (50%)
- (4) JV with mLocum S.A. (50%)
- (5) JV with Parznew Partners B.V. (50%)

9.2. Organizational or capital links of the Group with other entities

As at the date of this report, the Group did not have any organizational or capital links with other entities.

9.3. Significant non-arm's length transactions

Transactions between related entities in the Group were concluded on an arm's length basis.

9.4. Changes in the Group management principles

Polski Holding Nieruchomości S.A Group was formed in 2011 as a result of the consolidation of state-owned companies with diverse and often inefficient organizational structures and management principles. Therefore there was a need to restructure and optimize the operations of the Group in order to achieve a uniform organizational structure and adapt it to the business needs and industry standards.

In the period from its formation to the end of 2015, the Group introduced extensive changes in the management principles consisting primarily of:

- ✓ the introduction of a uniform organizational structure in the Group companies with the centralized management function in the following five organizational departments:

asset management, real estate, projects, finance and operations;

- ✓ employment restructuring combined with outsourcing of accounting, HR and payroll services as well as technical maintenance and administration of the Group's real estate.

9.5. Remuneration, agreements and transactions with members of the Management Board and Supervisory Board

Remuneration of the Management Board and Supervisory Board members of Polski Holding Nieruchomości S.A. for 2015 was as follows:

Remuneration of Management Board members for 2015

Name	Remuneration received from the parent company (in PLN)	Remuneration received from subsidiaries (in PLN)
Izabela Felczak-Poturnicka	7,537	0
Zbigniew Kulewicz	7,537	0
Artur Lebedziński	375,046	248,730
Mateusz Matejewski	298,990	208,832
Włodzimierz Stasiak	378,061	245,164
Rafał Krzemień	785,905	0
Sławomir Frąckowiak	941,298	0
Total	2,794,374	702,726

Remuneration of Supervisory Board members for 2015

Name	Remuneration received from the parent company (in PLN)
Izabela Felczak-Poturnicka	40,727
Bartłomiej Prus	18,264
Józef Banach	20,037
Barbara Karczyńska	4,369
Marzena Kusio	41,977
Antoni Leonik	24,430
Marcin Marczuk	41,455
Mateusz Matejewski	2,226
Krzysztof Melnarowicz	41,455
Tomasz Zganiacz	10,967
Total	245,907

Management Board members may receive an annual bonus in the amount of up to three times their average monthly salary for the achievement of strategic goals.

In addition, Management Board members of Polski Holding Nieruchomości S.A. signed non-competition agreements and for this reason, upon termination of the employment contract, they will be entitled to one-off compensation.

Contracts with Management Board members of Polski Holding N S.A. provide for payment of severance pay in the amount of three times the monthly salary in the event of their resignation or dismissal without due cause.

In the year ended 31 December 2015 and 31 December 2014, no advances, loans, guarantees or warranties were granted to

10. Significant risk factors

In its operations the Group monitors and assesses risks on a current basis to limit the unfavourable impact of changes in risk factors on its financial position.

10.1. Legal risk

Risk of absence of the necessary permits or consents required for some of the building facilities owned

The Group does not have complete documentation relating to the acquisition, construction, modernization and use of some of the real estate and buildings currently owned by the Group. This is mainly due to the fact that the files, records and other documents in this respect kept by the Group and the public administration authorities are incomplete as a result of the historical transformations of the Group. Therefore, it is impossible to guarantee that the Group, its legal predecessors or third parties that leased, rented or used the real estate and buildings currently owned by the Group had obtained all the required consents, approvals and other administrative decisions in this respect or that they had made all the notifications and paid all fees required in connection with the acquisition, construction, use, modernization or extension of a given building. Moreover, the Group cannot guarantee that it satisfies all the requirements specified in the administrative decisions issued for such real estate or that the real estate and buildings meet all the conditions, including technical ones, required to obtain all necessary administrative decisions. These risks result primarily from: (i) the nature of the Group's portfolio, which includes many buildings erected several dozen years ago; (ii) the long operating history of the Group companies and their legal predecessors, as well as the organizational and corporate changes affecting the Group companies and their legal predecessors in the past; (iii) force majeure events; (iv) irregularities resulting from actions of third parties (e.g. former lessees and tenants of real estate currently owned by the Group or former owners or tenants of such real estate before it became a part of the Group's portfolio); (v) human errors of employees of the Group's legal predecessors; and (vi) unclear laws or their

members of the Management Boards and Supervisory Boards of Group companies and their relatives and no other agreements were concluded with such persons on the basis of which they would be obliged to render services to Polski Holding Nieruchomości S.A. and its related entities.

As at 31 December 2015 and 31 December 2014 no loans were granted by Group companies to the Management Board and Supervisory Board members and their relatives.

In the year ended 31 December 2015, the Group did not enter into any significant transactions with the Management Board and Supervisory Board members or their relatives.

wrong interpretation, in particular in the period in which the Group's buildings were erected. If the competent public administration authority finds out, in particular as a result of an inspection of real estate and buildings, that the Group has failed to make all the notifications required by law with respect to its real estate or buildings or obtain all the required consents, permits and other administrative decisions for their construction, repair and use, or that the current conditions of use of such real estate or buildings do not meet the legal requirements, it may (among others): (i) prohibit the Group from using a given building; (ii) impose an obligation on the Group to adjust the conditions of a given building to the legal requirements; or (iii) impose on the Group an obligation to restore the real estate to its previous condition, in particular by demolition of a building.

Moreover, the administration authorities may impose on Group Companies administrative penalties and fines for present or past violations of administrative requirements. In consequence, the Group may also have to terminate rental agreements for such buildings or the Group's tenants may be able to terminate their agreements.

The Group tries to mitigate this risk by analyzing its documents in detail and taking actions aimed at obtaining the necessary permits and consents.

Risk of use of some buildings in a manner inconsistent with the relevant administrative decisions relating to their use.

The Group uses some of its buildings in a manner inconsistent with their purpose as notified to the public administration authorities or defined in the administrative or other decisions. Moreover, the Group is unable to confirm that all its properties meet all the technical requirements associated with the purposes for which they are used, including the fire safety, work

safety and sanitary conditions that must be met by buildings used for such purposes. These risks result primarily from: (i) the nature of the Group's portfolio, which includes many buildings erected several dozen years ago; (ii) the long operating history of the Group companies and their legal predecessors, as well as the organizational and corporate changes affecting the Group companies and their legal predecessors in the past; (iii) force majeure events; (iv) irregularities resulting from actions of third parties (e.g. former lessees and tenants of real estate currently owned by the Group or former owners or tenants of such real estate before it became a part of the Group's portfolio); (v) human errors, including errors of the Group's employees; and (vi) unclear laws or their wrong interpretation in respect of the actual status.

Should a public administration authority determine that the function of a building or a part thereof has been changed, in particular from residential to office, without the required notification, it can suspend the use of the building or a part thereof and impose a legalization fee, and subsequently demand the previous function of the building or a part thereof to be restored. Moreover, it can impose administrative penalties on the Group companies for violating the permitted manner of using a building at present or in the past. In the event of using a building or a part thereof in a manner inconsistent with its purpose, the Group may also face other adverse consequences, such as increased levies. In particular, the obligation to adjust a building to the requirements applicable to office space is associated with the need to incur additional costs to change the formal purpose of using such a building, including an increase in the annual perpetual usufruct fee from 1% (residential buildings) to 3% (office space), which will have an impact on the net operating profit generated by the Group on those properties. The Group may also be required to terminate certain rental agreements, in particular concerning apartments used as office space, or the Group's tenants may terminate such agreements.

Risk of terminating or not extending perpetual usufruct agreements concluded by the Group companies

As at 31 December 2015 the Group uses 83 properties based on perpetual usufruct agreements concluded with the State Treasury or with local governments or their associations. Perpetual usufruct agreements are as a rule concluded for a specified period of 99 years and most of the Group's agreements were concluded for this period.

An agreement for perpetual usufruct of land by a Group Company may be terminated before the date specified therein if the land is used in a manner obviously contrary to its purpose specified in the agreement. Due to the fact that a large number of properties are used by the Group based on perpetual usufruct agreements, the Group is unable to determine with certainty that in the past and currently it has met all the obligations specified in the agreements. Therefore, the Group cannot rule out the risk of

termination of such agreements before the end of their term. Additionally, the Group cannot ensure that all the concluded perpetual usufruct agreements will be extended for further periods, and that they will not be terminated as a result of re-privatization claims or other claims for restitution of real estate. Termination of an agreement concerning one plot of land which is a part of a larger property of the Group covered by the Group's investment programme can lead to problems with or delay in the execution of such a programme.

Risk of legal disputes

The Group's activity is mainly connected with real estate lease, sales and management, which involve a number of court cases and other legal proceedings which are a part of the Group's regular business activities. There might be claims relating to the Group's properties, and the Group may be held liable for events occurring at building sites, such as accidents, injuries or deaths of the Group's employees, employees of subcontractors or other persons visiting such building sites. Other disputes which may involve the Group include in particular disputes with individual residents concerning replacement or maintenance of equipment or finishing of residential premises, disputes relating to lease and settlement of fees for utilities.

Furthermore, construction of buildings and sales of real estate, especially apartments, as part of the Group's residential development projects involves the risk of claims being brought in connection with defects in construction works and claims for repair works in connection with such defects, especially under guarantees. The Group cannot guarantee that such claims are not brought against it in the future or that repair or other works will not be necessary.

Risk of challenging the Group's right to possess or use real estate

The Group is exposed to inherent risk associated with investing in Poland, resulting from the unclear legal status of some of the real estate located in Poland. After the nationalization laws were implemented in Poland in the post-war period many private properties and companies were taken over by the state. In many cases, property was expropriated in breach of the law. In particular, real estate in Warsaw was covered by a special decree issued in 1945, on the basis of which many Warsaw properties were nationalized (the "Warsaw Decree"). In the years 1989-1990, after Poland's transition to market economy, many former real estate owners or their legal successors began efforts to recover their real estate or companies lost after World War II or to obtain compensation. For many years, attempts have been made to regulate the issue of re-privatization claims. Nevertheless, to date no law has been passed in Poland to regulate re-privatization procedures in a comprehensive manner. Under the current regulations, former real estate owners or their legal successors may apply to public authorities

for revoking the administrative decisions on the basis of which their real estate was expropriated, provided that such administrative decisions were issued in breach of the law binding at the time.

In accordance with the Management Board's knowledge, the Group's portfolio of real estate with legal defects (with little potential for positive resolution) includes 19 properties. The Group classified 16 more properties (and land plots forming part of the properties at Świętokrzyska 36 and Bartycka 26) to its portfolio of real estate with legal defects (with potential for positive resolution). Classifying real estate as having legal defects means that: (i) the Group may have no right to possess such real estate, (ii) the ownership title held by the Group or the State Treasury has been challenged by third parties, or (iii) the Group may have problems with determining beyond any doubt that it holds the ownership title, the perpetual usufruct right or another property right to the real estate or that it uses the real estate on the basis of a contract or on another legal basis. Consequently, the Group may lose the right to possess some of its properties to former owners, their heirs, purchasers of claims or other entitled persons. There is also a risk that in some cases the Group will be obliged to return some benefits obtained in connection with using the real estate or to pay compensation for using the real estate without a legal title. The Group recognized a provision for satisfying claims concerning the portfolio of real estate with legal defects (with little potential for positive resolution) held in bad faith as at 31 December 2015. A provision was not created for the portfolio of real estate with legal defects with potential for positive resolution. Classification of real estate from the legal perspective was based on the best knowledge of the Management Board, however, it is impossible

10.2. Market risk

Risk related to acquiring finance for the investment programme on the expected terms and conditions, within the expected time

During the execution of its investment programme, the Group will incur significant initial expenses and, therefore, it will need significant funds, including funds from external sources.

Without the possibility of obtaining financing on satisfactory terms, the funds available to the Group at present may prove insufficient for the execution of its strategy, the level of the Group's development may be lower than expected, and the time needed to achieve the specific strategic goals may be longer than it was initially assumed.

In a situation where:

- ✓ the Group's capital requirements will be significantly different from those currently assumed
- ✓ the Group's proceeds from sales of properties which do not constitute the core business and which are to be sold under the divestment programme are lower than expected

to guarantee that this classification will not change due to various circumstances, the majority of which remain outside the Group's control, such as: court decisions issued in similar cases in the future or new re-privatization claims brought with respect to the Group's real estate classified as free of legal defects or having legal defects with potential for positive resolution. It cannot be guaranteed, either, that the Group's classification will not be questioned in the future.

It is not certain whether new re-privatization claims or other claims will not be brought in the future against the Group or against owners of the real estate which is currently included in the Group's portfolio. It is not certain, either, that the provisions created by the Group for satisfying such claims have been or will be estimated accurately.

Risk of tax disputes

Due to the fact that legal regulations are often complicated and difficult to interpret and the practice and judicature are inconsistent, potential disputes with tax authorities cannot be ruled out, and as a result correctness of tax settlements of Group companies in respect of tax dues which are not overdue may be challenged and tax arrears may be assessed.

Moreover, the Group Companies have concluded transactions with related entities and the practice is continued. Despite the Group's undertaking all the measures required to maintain arm's length conditions in transactions with related entities, it cannot be guaranteed that there will be no potential disputes with the tax authorities in this respect and that the tax authorities will not in effect assess the terms and legal effects of the transactions with related entities differently, and in consequence attempt to assess additional tax liabilities.

- ✓ the Group does not find the required partner to a joint venture ensuring appropriate funds for the construction of a facility

the Group may find it necessary to obtain additional borrowings at an amount higher than previously expected.

Risk of impact of the financial, macroeconomic and political conditions in Poland and throughout the world on the Group's operations

Revenues generated by the Group depend to some extent on the economic conditions both in the world and in Poland, where the Group operates and where it has all its assets. The Group's operations are affected in particular by: the level of Polish GDP, the inflation rate, foreign exchange rates, interest rates, unemployment rate, the amount of average salary, the State's fiscal and monetary policies. The Group's properties are subject to macroeconomic factors and specific local conditions in the region where they are located. A large portion of the Group's properties is located in Warsaw and in the largest regional cities

in Poland, such as Poznań, the Tricity, Łódź and Wrocław. In consequence the Group may be affected by the adverse changes on the real estate market in Warsaw and in other regions where it operates. These changes may be more intense or larger in scope than in other regions of Poland. The Group's real estate portfolio concentrates on commercial properties, in particular office space, which causes the Group to be exposed to adverse changes in those property market segments in Poland, including an increase in competition, growing market saturation in the segments and high oversupply which may lead to the necessity of reducing lease rent.

The economic situation in Poland and, consequently, the Group's business, may also be affected by adverse economic or political events in the neighbouring countries that experience political instability, tension and social or ethnic unrest and conflicts.

Risk of amendments to legal regulations

The Group's activity in Poland is subject to various regulations, such as requirements regarding the investment process, fire

10.3. Liquidity and credit risk

Risk related to the Group's increased debt

As at the balance sheet date the Group's debt in respect of bank loans is PLN 312.4 million. The Group expects that the level of external financing will increase in the future in connection with the execution of the planned commercial development projects. Growing importance of external debt has the following implications:

- ✓ increased exposure to adverse economic conditions in the Group's business environment;
- ✓ limited flexibility of the Group when facing changes in the competitive and macroeconomic environment;
- ✓ the need to use a part of cash from operating activities for servicing liabilities;
- ✓ limited ability to obtain further external financing for development projects or the need to obtain financing on less favourable terms.

Additionally, the Group is exposed to a risk of fluctuations in interest rates which affect the amount of interest on bank loans. The interest rates depend on a number of factors beyond the Group's control. A significant increase in interest rates may increase the costs of financing and, therefore, have an adverse effect on the Group's business activities, profitability and financial results.

In order to mitigate the risk associated with external financing, the Group monitors the level of its debt and liquidity on an ongoing basis and analyses its capital structure. Additionally, the

protection and safety regulations, environmental regulations, labour laws and laws restricting the use of land. If the Group's projects and real estate do not comply with these regulations, the Group may be obliged to pay penalties or damages provided for by law.

Moreover, the implementation of stricter regulations protecting the environment or health and safety or executive procedures in Poland may result in considerable costs and liabilities for the Group, and facilities owned or used by the Group may be subject to stricter supervision and control. Also, amendments to the regulations applicable to residential development activity aimed at protecting the interests of consumers may adversely affect the Group's activity by increasing the costs of development activities.

Adopting new laws, directives, regulations or orders, or amendments to the existing ones, may require considerable, unforeseen expenditures or to establishing restrictions on the use of certain facilities by the Group, which may have a significant adverse effect on the Group's activity, its financial position and operating result.

Group hedges against the risk of interest rate fluctuations by concluding derivative hedging contracts.

Foreign exchange risk

Part of the Group's bank loans and a part of its rental revenues are denominated in foreign currencies. Therefore, significant changes in exchange rates may, on the one hand, lead to deterioration of the Group's profitability and financial result and on the other – cause problems with the solvency of the tenants whose rents are denominated in foreign currencies.

The Group monitors foreign exchange rates on an ongoing basis and takes actions to mitigate the adverse effect of their changes. The Group hedges against foreign exchange risk by concluding derivative hedging contracts. Additionally, to mitigate this risk the Group uses natural hedging which means that contracts with lessees on a given project are denominated in the currency of the respective loan.

The Group's liquidity risk

Completing investments and purchasing real estate the Group gradually increases the share of borrowings in its financing structure. This is related to liquidity risk and the risk of disturbing the balance between financing operations and timely repayment of dues. Maintaining liquidity depends on the banks' lending policies in respect of granting loans. To ensure that the required liquidity is maintained the Group monitors cash flows and keeps cash in amounts sufficient to cover the expected operating expenses and current financial liabilities, and maintains the stipulated liquidity ratios.

10.4. Industry risk

Risk of increased competition on the part of other entities which invest in real estate, real estate managers, and developers

The Group in particular competes with other entities investing in real estate, both local and international, real estate managers and other property lessors. Competition on the market can lead to unavailability of tenants, pressure from tenants on reducing rents (which happened in 2009), as well as increases in the costs of marketing activities and the costs of execution of the planned projects. Due to increased competition the Group may lose some of its tenants and lessees or be required to reduce the rent amount. Moreover, if the attractiveness of a specific location is adversely affected by the presence of a competitor's building in the same area, the construction may be delayed or discontinued. The Group mitigates this risk by modernizing particular properties and increasing the portfolio by high-standard properties.

Risk related to the Group's lessees

The Group's real estate is rented by tenants and lessees of different nature and solvency ratios. There is a risk that some of them may become insolvent and the respective dues will become uncollectible. To minimize this risk selecting tenants and lessees in stable financial and economic conditions is key to the Group. Lease agreements are secured with guarantees or security deposits. Payments from lessees are monitored on a current basis, which enables the Group to quickly react to payment delays.

Risk related to increase in the costs of real estate maintenance

Many rental agreements concluded by the Group do not provide for a possibility of charging the costs of maintenance, utilities or property management directly to the tenants. Consequently, such costs are borne by the Group and they can be transferred to the tenants on a lump-sum basis in an adequate proportion in the form of rent increases. The market conditions and the requirements applicable to rent rates can limit the possibility of transferring such costs or a part thereof to the Group's tenants. In particular, most rental agreements concluded by the Group contain a clause concerning partial or full indexation of rent, which is usually performed once a year. This may reflect fully or at the appropriate time the increase in particular real estate maintenance costs. Moreover, if a rental agreement does not contain the rent indexation clause, the rent may remain fixed for a relatively long period (in particular in the case of agreements concluded for a specified period) even though the costs of property maintenance incurred by the Group grow. The costs of property maintenance may grow due to a number of factors, including inflation. A significant increase in the costs of property maintenance, which cannot be offset by increasing the rent, may

have a material adverse effect on the Group's business, financial position and results of operations.

In order to minimize such risk, the Group takes actions resulting from its strategy, which are aimed at a gradual transfer of a major part of the costs associated with the real estate to tenants. Additionally, new rental agreements are concluded according to the rent plus maintenance fees formula.

Risk related to sale of real estate earmarked for sale under the divestment programme in the planned period

The Group's strategy assumes generating revenues also from the sale of some of the Group's properties unrelated to the target profile of the Group's activity, which are held for sale under the divestment programme. Sale of real estate is usually a complex and long-term process. A long time may pass between making a decision to start the real estate disposal process and the date on which the disposal is actually made. Such time may be longer than assumed by the Group due to factors independent of the Group. In this period, in particular, market conditions may deteriorate or an entity interested in purchasing a specific property may change its plans. As a result, the Company may not guarantee that it will achieve revenues from sold real estate in the amount specified in the valuations of the individual properties. The sale process may also be delayed or discontinued due to re-privatization claims brought against Group Companies. Such limitations or other actions of third parties may adversely affect the Group's ability to make sales at expected prices or in the planned period.

Risk related to execution of the acquired development projects

Many risks are associated with the complex technical and legal nature of development projects. They include mainly the possibility of not obtaining the permits necessary to use the land in accordance with the Group's plans, exceeding the budgeted costs, delays in completing the project, insolvency of the contractors or subcontractors, unfortunate accidents or unexpected technical difficulties, inability to obtain consents, permits or other decisions from public administration bodies. Additionally, the Group cannot ensure that the permits, consents or other decisions currently held or obtained in the future are not revoked or that the period of their validity will be extended. If any of those risks arise delays may occur in the completion of the project, their costs may increase or potential revenues may be lost, and in some cases the investment project itself may be impossible to complete.

Those risks are mitigated, among other things, by cooperating with verified contractors in stable financial position, securing the general contractor agreements and employing experienced professionals to take responsibility for the investment project.

Risk of increase in costs related to modernization and repairing properties

Maintaining the technical condition of a leased property at a certain level so as to ensure its attractiveness for the current and future tenants may lead to significant costs which are usually charged to the landlord. The Group may be unable to transfer the costs to the tenants.

The Group's real estate portfolio also includes properties developed several dozen years ago, which have not been thoroughly modernized in recent years. The need to modernize or repair the Group's real estate may result from reasons independent of the Group, including force majeure events, which may lead to the necessity of the Group's incurring costs that had not been planned or significantly exceeding the costs planned for that year. The Group's real estate may also suffer damages because of hidden defects (which are not covered by insurance policies or statutory warranties or building guarantees) or due to external factors (e.g. floods, high groundwater level, landslides). Additionally, the Group may be obliged to eliminate the consequences of external factors or repair identified defects e.g. without the possibility of transferring such costs to third parties, especially tenants.

Risk of the cyclic nature of the real estate market

Demand for office space leased from the Group and the number of the Group's development projects (including residential ones) vary from one year to another, depending on, among others, general macroeconomic factors, demographic changes in specific urban areas and market prices. Generally, growing demand contributes to an increase in realized profit and in the number of new projects, as well as increased activity of the Group's competitors. Due to a relatively long period between making a decision to start a project and its actual completion, partly resulting from a lengthy procedure of obtaining the required permits from public administration authorities, commercialization of planned projects and the project lead time, there is a risk that when a project is completed, the market will be saturated and the investor will not be able to lease or sell the project at the expected profit. A period of improved economic situation on the market is usually followed by a downturn and investors are discouraged from starting new projects because of a decrease in potential profits. There is no guarantee that during a downturn on the market the Group will be able to select those projects within its investment program that will satisfy the actual demand during the subsequent boom. Furthermore, demand for residential real estate may depend on the government policy in the area of co-financing or easier access to mortgage loans for certain buyers of certain types of apartments. Any changes in the government policy that are associated with difficulties in obtaining mortgage loans may decrease demand for residential real estate. An increase in interest rates, deterioration in the economic situation of

households and regulatory limitations imposed on banks in the area of granting loans and borrowings may cause a further decrease in demand for apartments and houses, which may persist. In addition, banks may further limit or restrict the terms and conditions for granting new mortgage loans or increase interest rates. Also passing new acts and introducing the so-called bank tax may lead to a drop in availability of loans for households. These factors may additionally decrease demand for new apartments.

Risk of violation of consumer protection regulations

The Group's activity, in particular in the area of sales of residential real estate, must be conducted in compliance with the relevant consumer protection laws. The Group's activities in this respect are subject to supervision by the President of UOKiK with regard to, among others, compliance with regulations prohibiting specific practices which violate common interests of consumers (such as providing inaccurate information to customers, unfair market practices and including forbidden clauses in templates of agreements). Pursuant to the Competition and Consumer Protection Act, the President of UOKiK is entitled to issue decisions stating that a given agreement violates collective interests of consumers and, consequently, prohibit certain practices and impose fines (up to 10% of revenues obtained in the year preceding the year in which the fine was imposed) or take other measures.

Competition protection authorities (or other legal authorities) and individuals may initiate court proceedings to declare a given provision of an agreement template illegal. Customers may bring claims against Group companies, individually or as part of a class action, for using such clauses in agreements. One cannot guarantee that such claims will not be brought by the Group's clients and they may have an adverse effect on the Group's activity.

Administrative risk

The Group's activity requires ongoing participation in a number of administrative proceedings conducted by various public administration authorities. Such proceedings are usually formalized and prolonged. If, during such proceedings, the Group does not comply with all formal requirements, its requests, demands or notifications will be rejected or dismissed. Furthermore, public administration authorities in Poland are to a large extent entitled to make arbitrary decisions and may not be controlled by other authorities or bound by requirements with respect to hearing the parties, prior notification or public control. Public administration authorities may exercise their right to make decisions in an arbitrary or selective manner or contrary to the law and under the influence of political or economic circumstances. The Group is trying to limit this risk by employing professionals and by availing itself of its experience in conducting administrative procedures.

10.5. Other risks

Risk of fluctuations in the value of the Group's real estate

The Group measures most of its assets at fair value via external property valuation experts. The assumptions according to which the valuation is performed relates in particular to the right of use of the property, examination of the condition of the environment and land status, third party claims, rent agreements, usable space, equipment and planning issues. The valuation may also be based on specific assumptions relating to concrete properties. There is no certainty that the valuation assumptions relating to the capitalization rate and the assumed annual rental revenue will be achieved. Forecasts may turn out to be incorrect due to a limited number and quality of public data and research relating to Poland. An additional factor with an impact on the value of the real estate are – among other things – costs of building or modernizing the facilities assessed by the Group on the basis of current and forecast prices of materials and services which may differ from actual prices when the related costs are incurred. If the forecasts, estimates and assumptions forming the basis for estimating the value of the properties in the Group's portfolio turn out to be different than those assumed, the actual value of the Group's portfolio real estate may differ significantly from that assessed by the property valuation experts. Additionally, the value of the real estate may be assessed using various methods, and even if the same methods are used, the principles applied may be differently interpreted. Thus it cannot be ensured that the valuation experts assessing the value of the Group's properties will use the same methods or will obtain the same results. If the market conditions and the prices of comparable commercial properties are unstable, the Group may note high profits or losses on revaluation of the currently held properties.

Risk following from completing some of the investments as part of joint ventures

The Group intends to perform most of its commercial development projects within joint ventures. According to agreements defining rules for such ventures, control over such assets is exercised by the Group jointly with the partner. Even if the Group has controlling interest in a given venture, some decisions relating to projects will require consent or approval by other partners in the joint venture. Disputes may occur between the Group and its partners in joint ventures, as a result of which the Group may not be able to manage or complete a given project in a manner it believes to be reasonable.

In particular, disputes between the Group and its partners may result from different objectives thereof, from their actions violating the agreement concluded with the Group, their financial problems, delays in project execution for reasons attributable to the partners, or insufficient experience and knowledge on their part.

Such factors may lead to delays in project completion or increase in the costs incurred by the Group in connection with a project executed as part of a joint venture, and after completion of the project may influence the realizable values on the sale or rental, and increase the costs of use of the property.

To mitigate the above risk the Group thoroughly analyzes its potential partners at the stage of their selection.

Risks related to liabilities in respect of environment protection and health and safety protection standards

In Poland, environment protection regulations impose on owners the obligation to rehabilitate land contaminated with dangerous or toxic substances. It should be noted, however, that if so called "old damage" to the environment is identified (damage that occurred up to 30 April 2007 and damage caused by actions completed before 30 April 2007) in the land possessed by the Group, the Group may be obliged to rehabilitate the land, regardless of who caused the damage and when it was caused. Furthermore, the Polish environment protection regulations are changing and becoming stricter. Such regulations often impose obligations regardless of whether the owner of a particular plot knew about the presence of contaminating substances or whether or not the owner is responsible for the contamination. The presence of such substances in any of the Group's facilities or liability for the failure to remove contamination with such substances may adversely affect the Group's ability to sell or lease such facilities or to take out a loan secured on such property. Also, the presence of dangerous or toxic substances in a facility may prevent, delay or restrict development or redevelopment of such property.

In addition, in view of the fact that some of the Group's buildings were built several dozen years ago, some materials used for their construction are now regarded as hazardous to human health, life and safety, e.g. asbestos. Consequently, in the future the Group will be obliged to remove such materials and may have to bring its facilities to the condition that does not present a threat to human health or life, if it is found out that safety standards have been exceeded or if stricter standards are introduced. It cannot be excluded, either, that some of the Group's properties will require rehabilitation of contaminated soil or ground in order to restore them to the condition compliant with legal requirements or required quality standards.

Reputation risk

The opinion of the market about the Group is an important factor affecting its business activities. The Group's business activity is exposed to risks caused by spreading negative or slanderous information about the Group, especially questioning the condition or safety of its properties, whether or not such opinions are justified. This may have a significant adverse effect on the Group's competitive position and its ability to lease space and

sell real estate effectively. In consequence, the number of vacancies in the Group's properties or the amounts spent on promotional activities may increase. At the same time, negative information itself and the resulting decrease in the level of trust in the Group's ability to lease or sell real estate may have a significant adverse effect on the Group's business activity, its financial position and operating result. The Group strives to ensure the highest possible operating transparency, appropriate quality of communication with the investors and protection of shareholder rights, also in respect of issues not regulated by the law. The Group is also in constant contact with the media, both nationwide and industry media, and informs its shareholders, investors, analysts and journalists of every important event via current reports and press releases.

Risk of the Group's inability to maintain or acquire Management Board Members and executives

When managing assets, executing projects, implementing its strategy and performing restructuring and integration processes, the Group relies on highly qualified team of employees, and in particular on Management Board members and qualified senior

managerial staff. Losing any Management Board member may significantly delay or prevent the performance of the Group's strategy or achievement of its business objectives and adversely affect its restructuring and integration. Due to a limited number of suitably qualified staff and statutory limitations concerning remuneration of Management Board members, which will remain in force as long as the State Treasury's interest in the Company exceeds 50% of the Shares, the Group may have problems with employing or retaining qualified Management Board members. Furthermore, the Group's future success depends partly on its ability to retain or employ senior managerial staff such as managers with many years of experience in real estate management, execution of investment programs, financing and internal audit. If the Group loses qualified specialists or is unable to employ them, the shortage of employees may have an adverse effect on the Group's ability to manage its assets effectively or to manage the execution of its investment program and its business activities properly. The Group may also be forced to offer higher remuneration and additional benefits in order to find or attract such senior managerial staff.

11. PHN on the capital market

11.1. Quotations

On 13 February 2013 Polski Holding Nieruchomości S.A. was floated on the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) The opening stock price was PLN 22.75. In the Initial Public Offering the state Treasury (the then sole shareholder of the Company) sold 10 846 000 of the shares held, i.e. 25% of their total number. The value of the PHN

S.A. offer was PLN 238.6 million. PHN S.A. was included in the sector index WIG-Deweloperzy as the 24th company. As of 24 June 2013, in accordance with the quarterly adjustments to the list of index participants made after the session of 21 June 2013, according to a decision of the Warsaw Stock Exchange shares in PHN S.A. are included in the sWIG80 index.

Basic data on shares of PHN S.A.

Ticker GPW	PHN
ISIN code	PLPHN0000014
Quotation market	basic
Industry sector	WIG-Deweloperzy (developers)
Segment to which the Company was classified	sWIG80
IPO	13.02.2013
Issuer's market maker	Dom Maklerski BZ WBK S.A.

Key data on quotation of shares of PHN S.A.

	2015	2014	2013
Highest share price [PLN] ¹⁾	26.23	31.55	29.50
Lowest share price [PLN] ¹⁾	15.56	19.51	23.40
Share price at the end of the year [PLN] ¹⁾	18.92	26.30	26.83
Average share price during the period [PLN] ¹⁾	22.45	26.08	26.22

POLSKI HOLDING NIERUCHOMOŚCI SPÓŁKA AKCYJNA
 Polski Holding Nieruchomości Directors' Report for the year ended 31 December 2015
 (All amounts are expressed in PLN million unless otherwise stated)

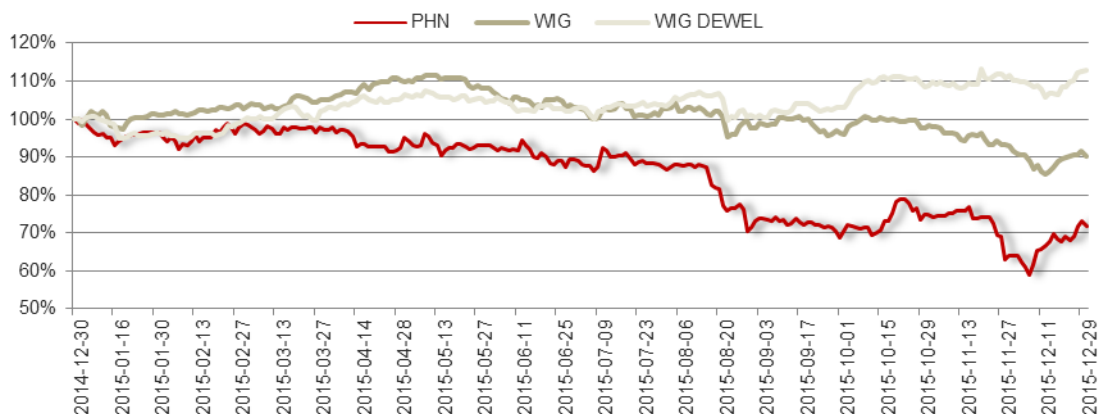
Number of shares at the end of the year [in millions]	46 722 747	46 482 044	44 599 947
Capitalization at the end of the year [PLN million]	884.01	1 222.48	1 196.62
Average daily value of trade [PLN'000]	170.23	537.39	745.82
Average daily trade volume [no. of shares]	7 838	20 547	28 777

1) Closing share prices

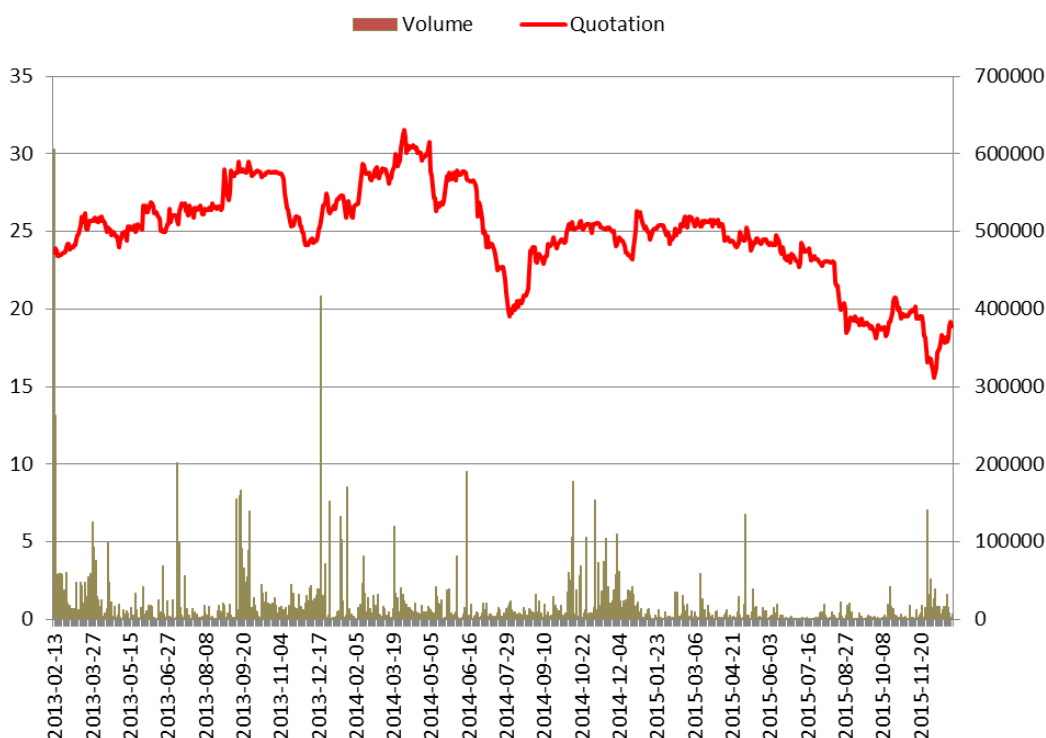
The change in the number of shares results from admitting C-series shares to trading on the exchange. C-series shares are purchased as a result of exercising the rights embodied in the Company's A- and B-series subscription warrants offered free of charge to those employees of Warszawski Holding

Nieruchomości, Intraco, Budexpo and Dalmor, whom pursuant to the provisions of art. 36 and the following of the Act on commercialization and Privatization of 31 August 1996 were entitled to free-of-charge purchase of the shares in the given company.

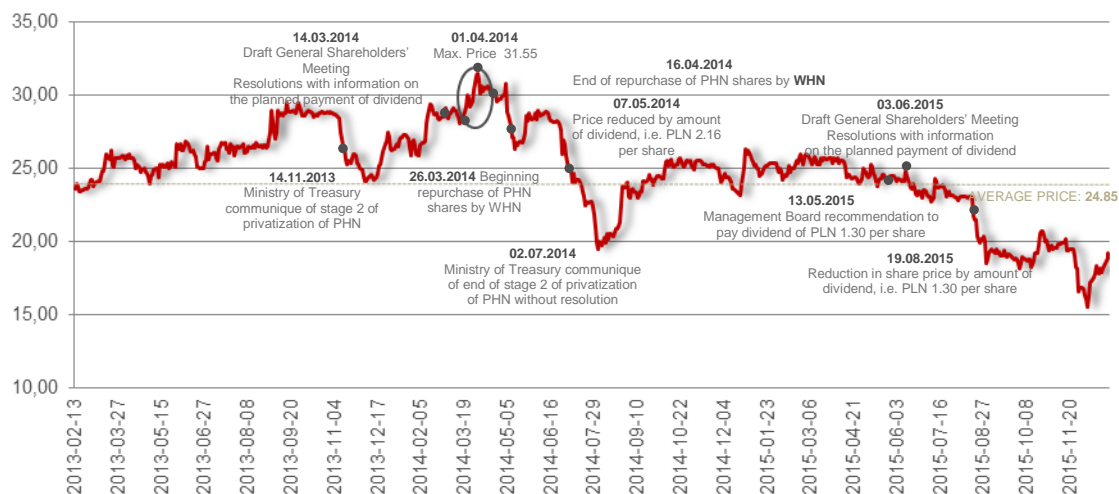
PHN S.A. quotations in 2015 compared with stock exchange indices.



PHN S.A. quotations in the years 2013 – 2015.



Most important events in respect of PHN S.A. quotations on the WSE in the years 2013 – 2015.



Source: Proprietary, based on data from the portal www.gpwinfostrefa.pl

11.2. Investor relations

Polski Holding Nieruchomości S.A. as a Company quoted on the Warsaw Stock Exchange provides investors with honest information about its activities and about important events in the Group. Reports are prepared regularly (both current and periodical) which cover all the aspects of the Company's operations and thus may have a material impact on the Company's share price. However, the area of investor relations does not only comprise mandatory actions which result directly from the provisions of the law. It also comprises several different activities which the Company engages in to meet the high expectations of all market participants, which in consequence builds the reputation of PHN S.A. and investor confidence.

In the prior year we have been informing shareholders and investors of the developments on improving the structure of the Group's real estate portfolio and increasing its profitability. In September 2014 the Supervisory Board of the Company adopted, published and presented at meetings with investors, analysts and journalists the main assumptions for the strategy of Polski Holding Nieruchomości S.A. "Budujemy wartość" (We are building value), which sets goals for the Company for the next few years. The issuer informs the shareholders and investors of consecutive steps on the road to the strategic goal. The Company also is in permanent contact with the media, both

nationwide and industry. The Company informs its shareholders, investors, analysts and journalists of each material event via current reports and press releases. In response to the growing market demand the Issuer decided to communicate in two languages, in Polish and in English. Since the end of 2014 all information addressed to the shareholders, investors, analysts and journalists are published in Polish and in English on the website www.phnsa.pl in dedicated folders "Investors relations" and "Media". PHN S.A. also values direct contact with shareholders, investors, analysts and journalists. The Company had many individual and group meetings during the roadshows in Poland and in Europe. PHN S.A. also regularly organizes press conferences devoted to the Company's financial results and its plans for the future.

The person responsible for investors relations and contacts with the media in Polski Holding Nieruchomości S.A. is Ms Magdalena Kacprzak:

- e-mail: magdalena.kacprzak@phnsa.pl
- tel. 22 850 91 34, mobile: 607 211 131

11.3. Analysts' recommendations

In 2015 two financial institutions recommended the shares of Polski Holding Nieruchomości S.A.: Dom Maklerski BZ WBK S.A. and Dom Maklerski PKO BP S.A. Both recommendations

were issued at the "Buy" level with a target price of PLN 27.80 and PLN 23.70 respectively.

Recommendations and target prices for PHN S.A. shares issued in 2015.

Institution	Content	Issue date	Target price	Price on issue date
DM BZ WBK S.A.	Buy	20.08.2015	27.80	21.49
DM PKO BP S.A.	Buy	03.12.2015	23.70	16.80

Institutions issuing recommendations for PHN S.A. shares in 2015.¹⁾

Institution	Analyst	Address data
DM BZ WBK S.A.	Adrian Kyrzcz	+48 22 586 81 59, adrian.kyrzcz@bzwbk.pl
DM PKO BP S.A.	Stanisław Ozga	+48 22 521 79 13, stanislaw.ozga@pkobp.pl

1) Full list of recommendations issued for the Company's shares is on the website: www.phnsa.pl in the folder "Investors relations".

11.4. Dividend policy

In taking decisions on the recommendation and payment of dividend, the Management Board is guided by the intention to share the increase in the Company's value in the form of payment of dividend to shareholders declared in PHN S.A.'s strategy, taking into consideration the Group's current financial position and planned cash flows, in particular the anticipated investment plans and the possibilities of acquiring finance for their pursuit. On 30 June 2015 the General Shareholders' Meeting of Polski Holding Nieruchomości S.A. decided to earmark one-half of the profit for 2014 for payment of dividend to

shareholders. The dividend was set at PLN 1.3 per share. The decision complied with the recommendation of the Management Board of PHN S.A. The remaining portion of the profit was transferred to supplementary capital and will be used, among other things, to pursue new development projects of the Group. The dividend date was set for 19 August 2015 and the dividend payment date for 26 August 2015, in accordance with the corporate governance rules binding on the exchange, which recommend that the interval between the dates should not be longer than 15 business days.

Dividend of Polski Holding Nieruchomości S.A. for the years 2013 – 2014.

	Dividend for the year 2014	Dividend for the year 2013
Dividend per share [PLN]	1.30	2.60
Total amount of dividend [PLN million]	60.7	99.9
Dividend rate [%]	5.65	7.02
Percentage of net profit [%]	50.2	100
Date of determining the right to dividend	19.08.2015	07.05.2014
Dividend payment date	26.08.2015	21.05.2014

Polski Holding Nieruchomości S.A. compared with real estate companies.

	P/BV		Dividend rate [%]	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Polski Holding Nieruchomości S.A.	0.43	0.63	5.65	7.02
Echo Investment S.A.	0.67	0.92	0.00	0.00
Global Trade Centre S.A.	1.56	0.91	0.00	0.00
Capital Park S.A.	0.68	0.46	0.00	0.00

11.5. Calendar of the key corporate events in 2016

Publication of periodic reports in 2016.

Date	Report
15.03.2016	Separate and consolidated annual report for 2015
12.05.2016	Consolidated quarterly report for the first quarter of 2016
31.08.2016	Consolidated report for the first half of 2016
14.11.2016	Consolidated quarterly report for the third quarter of 2016

Pursuant to Art. 159 of the Act on trading in financial instruments the Company's related parties (determined pursuant to Art. 156. 1. 1 of the Act on trading in financial instruments) the following

so-called close periods for the purchase and sale of the Company's shares in 2016 are binding, in connection with the preparation and publication of periodic reports:

Close periods in 2016

Dates	Close period
15.01.2016 – 15.03.2016	Close period related to the publication of the annual report for 2015
28.04.2016 – 12.05.2016	Close period related to the publication of the quarterly report for Q1 2016
31.07.2016 – 31.08.2016	Close period related to the publication of the report for the first half of 2016
31.10.2016 – 14.11.2016	Close period related to the publication of the quarterly report for Q3 2016

The Act of 29 July 2005 on trading in financial instruments introduced the term "close periods". In accordance with art. 159. 1 of the Act, primary insiders (art. 156. 1.1.a of the Act on trading in financial instruments) including among other things: (i) Members of the Management Board, Supervisory Board, proxies or plenipotentiaries of the Company; (ii) the Company's employees and auditors, and (iii) other people on the Company's commission or in a different type of legal relationship "during the close period, are not allowed to purchase or sell, on their own account or on account of a third party, the issuer's shares, derivative rights relating to the issuer's shares and other related financial instruments or perform, on their own

account or on the account of third parties, other legal transactions which cause or could cause the disposal of such financial instruments".

Polski Holding Nieruchomości S.A. organizes conferences after the publication of periodic reports, presenting the Company's and the Group's results. Representatives of Polski Holding Nieruchomości S.A. also meet with capital market participants during one-on-one meetings and roadshows. The Investors Relations team provides information relating to telephone and mail queries on a current basis.

12. Corporate governance

12.1. The set of corporate governance rules applied by the Company

The Management of Polski Holding Nieruchomości S.A., acting pursuant to § 91.5.4 of the Decree of the Minister of Finance of 19 February 2009 on current and periodical information to be reported by issuers of securities and the conditions for treating information required by the laws of a state other than a member state as equivalent (hereinafter: "the Decree"), hereby presents its corporate governance statement.

2012. It was in force from 1 January 2013 to 31 December 2015. The said set of rules is available to the general public on the website of the Warsaw Stock Exchange devoted to corporate governance at www.corp-gov.gpw.pl and on the corporate website of Polski Holding Nieruchomości S.A. www.phnsa.pl in the section addressed to shareholders (Investor Relations – Corporate Governance).

In 2015, Polski Holding Nieruchomości S.A. applied the set of rules contained in "Good Practices for Listed Companies" (hereinafter: "GPLC"), which was attached to Resolution no. 19/1307/2012 of the Stock Exchange Council of 21 November

The Company's aim is to ensure, to the greatest extent possible, the transparency of its activities, satisfactory communication with investors and the protection of shareholders' rights, also in matters not regulated by law. Therefore, the Company has

taken steps to apply the GPLC to the fullest extent possible. Polski Holding Nieruchomości S.A. follows corporate governance principles in order to establish good practices based on transparency and responsibility, which will help the Company improve its results, support growth, stability and long-term investments.

a) Information policy and communication with the capital market

Polski Holding Nieruchomości S.A., as a company listed on the Warsaw Stock Exchange, undertakes numerous actions to improve communication with the capital market. The Company complies with the obligation to provide reliable information on its activities and important events within the Group. Reports (both current and periodical), which are prepared regularly, cover all aspects of the Company's activities and, therefore, may have a significant effect on the price of its shares. Investor relations are not, however, limited to obligatory activities which are directly required by law. They also comprise various activities which the Company performs to meet the high expectations of all market participants and, as a result, build reputation and investor confidence in PHN S.A. All significant events are communicated by the Company to the shareholders, investors, analysts and journalists in the form of current reports and press releases. In response to growing market demand, the Issuer has decided to maintain communication in two languages – Polish and English. Since the end of 2014, all communications addressed to the shareholders, investors, analysts and journalists have been published both in Polish and English at www.phnsa.pl in the Investor Relations and Media sections. Additionally, Polski Holding Nieruchomości S.A. appreciates direct contact with shareholders, investors, analysts and journalists. The Company has held many individual and group meetings during roadshows in Poland and Europe. Moreover, PHN S.A. regularly organizes press conferences to discuss the Company's financial results and its plans for the future.

b) Corporate website

Polski Holding Nieruchomości S.A. maintains its corporate website www.phnsa.pl, which is a source of reliable information about the Company. The Company's website contains all information required by law and documents specified in GPLC. Polski Holding Nieruchomości S.A. also maintains its corporate website in English. The Company's website contains an Investor Relations section, which contains all current and periodical reports published by the Company, presentations of its results and all information on the General Shareholders' Meetings held. The Company's website is updated on an ongoing basis and the technical solutions adopted are improved to meet the expectations of the capital market participants to the fullest extent possible.

c) Responding to media publications which create bad publicity for the Company

Polski Holding Nieruchomości S.A. has a procedure in place for responding to media publications creating bad publicity for the Company in a coordinated manner. The procedure was adopted in 2014 in connection with possible publications intentionally causing harm to the Company. In accordance with the procedure, should the Company find out, based on a legal and PR analysis, that publications in media will require taking action, pursuant to chapter I, section 11 GPLC, the Company will publish its position on the Company's website. Should the Company conclude that any publications in the media are particularly harmful to its reputation, under the coordinated response procedure it shall send a response to the editor in the form of a correction or statement the text of which shall each time be verified from the legal perspective and inform the Supervisory Board about the actions taken. The communication addressed to the Supervisory Board may include a request to call a meeting on the matter, should the circumstances so require.

d) Objections concerning compliance with corporate governance principles contained in the GPLC

With reference to Chapter I of Good Practices for Listed Companies containing "Recommendations concerning good practices for listed companies" it should be noted that:

- ✓ Remuneration of Supervisory Board members is determined by the General Shareholders' Meeting, and the principles for remunerating Management Board members and the amount of their remuneration are determined by the Supervisory Board. In order to ensure full compliance with Recommendation 5, the Company contemplates developing and adopting the remuneration policy and the principles for determining such policy.
- ✓ The Company has a policy of employing competent, creative persons with adequate professional experience and education. In 2015, the Management Board consisted of three persons (all men). As of 21 December 2015, the Supervisory Board delegated a Supervisory Board member, Ms. Izabela Felczak-Poturnicka, to temporarily act as Chair of the Management Board, and a Supervisory Board member, Mr Zbigniew Kulewicz, to temporarily act as Deputy Chair of the Management Board. As a result, the Management Board consisted of two persons: one woman and one man. In 2015, the number of Supervisory Board members changed, and the number of male members was always greater than the number of female members. In view of the above, in 2015 the Company did not ensure the equal participation of women and men in the Management Board and Supervisory Board, which means that the requirements of Recommendation 9 were not complied with.

✓ To date, the Company has not decided to provide shareholders with the opportunity to vote at the General Shareholders' Meeting outside the place where the GSM is held using means of electronic communication. The Company considers adopting Recommendation 12 in the future.

With reference to the principle contained in Chapter III.8, concerning the existence of Supervisory Board committees whose tasks and functions should be regulated by Appendix I to the Recommendation of the European Commission of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board, it should be noted that Polski Holding Nieruchomości S.A. has only the Audit Committee in place. In accordance with the Company's Articles of Association, the Supervisory Board may appoint other committees, in particular the Appointments and Remuneration Committee; however, no such committees have been appointed to date. It should also be noted that the Supervisory Board Rules and Regulations will require Supervisory Board members, immediately after their appointment, to submit to the Company a written statement of compliance with the independence criteria defined in Appendix II to the Recommendation of the European Commission of 15 February 2005 on the role of non-executive directors or

12.2. Main characteristics of the internal audit and risk management systems

The internal audit and risk management systems used in the process of preparation of financial statements and consolidated financial statements comprise the internal regulations, procedures and tools applied by the Group.

The most important regulations and procedures in this respect include the accounting policies applied by the Group companies that reflect the accounting principles adopted by the Group as a whole. Additionally, the Group closes its books of account and prepares financial statements in accordance with the schedules, controls and templates of consolidation packages. The accounting and reporting processes are coordinated by the central entity providing accounting services to the Group companies and the entity preparing consolidated financial statements. Such organization allows standardization and optimization of processes. The Group's financial reporting is based on accounting entries made in the uniform computer system of the ERP class which is used by all entities. The internal audit and risk management system applied in the process of preparing financial statements also involves verification of compliance of the financial statements of Group companies with the facts and inputs to the integrated computer system used for the preparation of the consolidated financial statements of the Group. The Group records economic events

members of supervisory boards of listed companies and (supervisory) board committees, and to notify the Company immediately of any changes in this respect occurring during their term of office.

With reference to the principle contained in Chapter IV.10, concerning providing shareholders with the opportunity to take part in the General Shareholders' Meeting using the means of electronic communication in the form of (i) a real-time broadcast of the General Shareholders' Meeting, (ii) real-time bilateral communication allowing the shareholders to speak during the General Shareholders' Meeting from a remote location, it should be noted that there are numerous technical and legal factors that may affect the course of the General Shareholders' Meeting and, consequently, the correct application of the above-mentioned principle in the scope described here. In view of the above, to date the Company has not decided to provide the shareholders with the opportunity to vote at the General Shareholders' Meeting] using the means of electronic communication. Moreover, the principles regulating participation in the General Shareholders' Meeting, which are in place at the Company, allow the shareholders to execute their rights resulting from shares and protect the interests of all shareholders.

in an integrated computer system whose configuration is consistent with the accounting policy adopted by the Company.

Financial statements are verified by an auditor. Interim financial statements are reviewed by the auditor, and annual financial statements are audited. The results of such reviews and audits are presented by the auditor to the Management Board and the Supervisory Board Audit Committee. In accordance with the procedures adopted, interim and annual financial statements are presented to the Company's Management Board, and subsequently to the Audit Committee, for review. After the review by the Audit Committee and verification by the auditor are completed, the financial statements are signed by the Company's Management Board and subsequently published by the Marketing, Investor Relations and PR Office. In accordance with § 28.1.4 of the Company's Articles of Association, the auditor authorized to review and audit separate and consolidated financial statements is selected by the Supervisory Board. The Company does not currently have a formal procedure in place for replacing the audit firm. The Company replaced its auditor in the past.

The value of assets is measured based on a decision-making model applied to real estate valuation as at the balance sheet date and the procedure for legal review of real estate. In

accordance with the adopted procedure, the value of assets is verified quarterly taking into account specified factors. A decision on taking or not taking action is made every quarter, after taking into consideration specific market conditions and the condition of the real estate, and assets are analysed based on

their carrying amount from the previous quarter. Additionally, the whole real estate portfolio is valued as at the end of each financial year.

12.3. Shareholders holding significant blocks of shares

12.3.1. The shareholding structure

The share capital of Polski Holding Nieruchomości S.A. amounts to PLN 46,722,747.00 and is divided into 46,722,747 ordinary bearer shares of PLN 1.00 par value each. Each share carries one vote, so the number of votes is equal to the number of shares. Transferability of the Company's shares is not limited.

As at the date of preparation of these financial statements, the Management Board of Polski Holding Nieruchomości S.A. is not aware of any agreements that could affect the shareholding structure in the future.

PHN S.A. shareholders as at 31 December 2015 and 31 December 2014

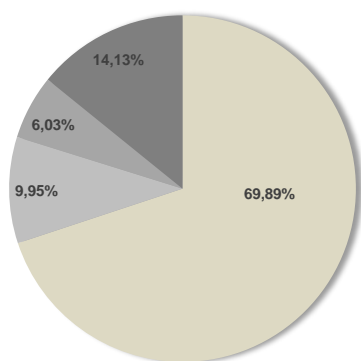
	31 December 2015		31 December 2014	
	Number of shares	% of shares	Number of shares	% of shares
The State Treasury	32,655,617	69.89%	32,655,617	70.25%
AVIVA OFE AVIVA BZ WBK	4,647,000	9.95%	4,249,000	9.14%
Nationale-Nederlanden OFE	2,817,849	6.03%	2,342,475	5.04%
Others	6,602,281	14.13%	7,234,952	15.57%
TOTAL	46,722,747	100.00%	46,482,044	100.00%

On the basis of annual reports published by open-ended pension funds as at 31 December 2015 it was determined that the Company's minority shareholders include the following open-ended pension funds: OFE PZU Złota Jesień (2.97% of the shares), OFE MetLife (2.91% of the shares), OFE Nordea

(1.14% of the shares), OFE Allianz Polska (0.98% of the shares), OFE AXA (0.86% of the shares), OFE Pekao (0.17% of the shares). The State Treasury and open-ended pension funds jointly hold 94.90% of the Company's shares. Consequently, small shareholders jointly hold 5.10% of the Company's shares.

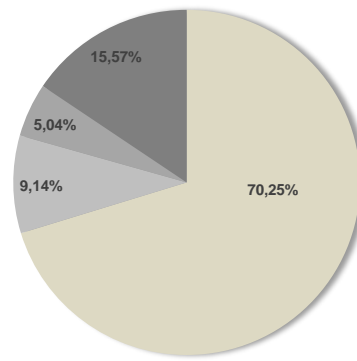
Shareholding structure

31 December 2015



■ State Treasury ■ Aviva OFE Aviva BZ WBK ■ Nationale-Nederlanden OFE ■ Others

31 December 2014



■ State Treasury ■ Aviva OFE Aviva BZ WBK ■ Nationale-Nederlanden OFE ■ Others

12.3.2. Shares in the parent company held by Management Board and Supervisory Board members

Members of the Management Board and Supervisory Board of Polski Holding Nieruchomości S.A. did not hold any shares in the Company as at 15 March 2016. Members of the management and supervisory bodies of PHN S.A. did not hold

any shares in other Group companies as at 31 December 2015 or 15 March 2016, either.

12.3.3. Employee share programme

The Group did not have an employee share programme in 2015.

12.3.4. Acquisition of treasury shares

Polski Holding Nieruchomości S.A. did not purchase any treasury shares in 2015.

12.3.5. Holders of securities giving special controlling powers

All shares of Polski Holding Nieruchomości S.A. are ordinary bearer shares. Each share carries one vote at the General Shareholders' Meeting of the Company. The Company's Articles of Association give special powers to one shareholder - the State Treasury:

- a) *"A Management Board member submits his resignation to the Supervisory Board in writing at the address of the Company's registered office, with a copy for the Minister of the State Treasury as long as the State Treasury remains the Company's shareholder." – § 23.4 of the Company's Articles of Association*
- b) *"1. The Supervisory Board consists of five to nine members appointed by the General Shareholders' Meeting, subject to clause 2.*

2. As long as the State Treasury remains a shareholder of the Company, one of the Supervisory Board Members referred to in clause 1 shall be appointed and dismissed, by way of a written statement, by the competent minister in charge of the State Treasury. If the competent minister in charge of the State Treasury fails to appoint a Member of the Supervisory Board, this shall not render the Board's composition inconsistent with the Articles of Association, and the Board shall be authorized to perform its functions, subject to mandatory legal regulations. Notwithstanding the

12.3.6. Limitations of voting rights and transferability of securities

The Articles of Association or any other internal regulations of the Issuer do not limit the rights to vote in any way. As far as the limitations of transferability of the Company's securities are concerned, it should be noted that the rights resulting from subscription warrants must not be executed earlier than 12 months after the acquisition of such warrants, and the period for executing the rights under subscription warrants is 10 years from the date of the resolution on their issue, i.e. 11 October 2011. Moreover, the written consent of the Company is required to dispose of subscription warrants, e.g. to sell or encumber them. A series and B series subscription warrants were offered

12.3.7. The Articles of Association amendment procedure

An amendment to the Issuer's Articles of Association requires a resolution of the General Shareholders' Meeting (§ 47.5.3 of the Articles of Association). Such resolutions are passed by a majority of three quarters of the votes. A request for amendment to the Articles of Association should be submitted

foregoing, the State Treasury shall maintain the right to elect other Members of the Supervisory Board at the General Shareholders' Meeting." – § 31.1 and 31.2 of the Company's Articles of Association

- c) *"A Supervisory Board member submits his resignation to the Management Board in writing at the address of the Company's registered office, with a copy for the Minister of the State Treasury as long as the State Treasury is the Company's shareholder." – § 31. 7 of the Company's Articles of Association*
- d) *"A shareholder or shareholders representing at least one twentieth of the share capital may demand placing certain issues on the agenda of the next General Shareholders' Meeting. This applies also to the State Treasury, as long as it remains the Company's shareholder." – § 42. 4 of the Company's Articles of Association*
- e) *"Prior to the General Shareholders' Meeting date, the Shareholders referred to in clause 4 may provide the Company (in writing or using the means of electronic communication) with draft resolutions concerning matters included in the agenda of the General Meeting or matters that may be included therein." – § 42. 5 of the Company's Articles of Association.*

free of charge to those employees of Warszawski Holding Nieruchomości S.A., Intraco S.A., Budexpo Sp. z o.o. and Dalmor S.A. who, in accordance with the provisions of Art. 36 and subsequent of the Commercialization and Privatization Act of 31 August 1996, were entitled to acquire the shares of a given company free of charge. Subscription warrants give the right to acquire C series shares of PHN S.A. The total number of C series PHN S.A. shares issued is 4,353,000, of which 3,338,744 have been admitted to stock exchange trading to date.

with a statement of grounds and the written opinion of the Company's Supervisory Board (§ 48 of the Articles of Association). The obligation to present matters that require a resolution of the General Shareholders' Meeting to the Supervisory Board for consideration and opinion also follows

directly from § 8.1.1.15 of the Supervisory Board Rules and Regulations adopted by the Supervisory Board on 21 December 2015 (resolution no. 98/12/2015). Pursuant to § 27.1.9) of the Articles of Association, the Supervisory Board adopts the consolidated text of the Company's Articles of Association. The

12.3.8. The composition of the Company's Management Board and Supervisory Board and their committees and description of their activities

The principles for the activities of the Management Board and Supervisory Board and its committees are regulated by generally binding provisions, the Company's Articles of Association, the Management Board Rules and Regulations and

a) The Management Board

The Management Board is a statutory collective body that manages the Company's affairs and is authorized to perform strategic management and supervise the operational management of the Company. The Management Board manages the Company's affairs in a transparent and effective manner, acting in accordance with the law and within legal limits (including the provisions of the Commercial Companies Code), in accordance with the Company's Articles of Association, Rules and Regulations and other internal regulations in place at the Company.

Composition of the PHN S.A. Management Board in 2015

As at 1 January 2015, the Company's Management Board consisted of three members: Mr Artur Lebieźniński, Chair of the Management Board; Mr Mateusz Matejewski, member of the Supervisory Board temporarily acting as Deputy Chair of the Management Board responsible for Property Management; and Mr Włodzimierz Stasiak, Management Board member responsible for finance.

On 6 February 2015, after a qualification procedure, the Supervisory Board appointed Mr Mateusz Matejewski for the position of Deputy Chair – Management Board Member responsible for Property Management. Consequently, as of 6 February 2015 the Company's Management Board consisted of the following persons: Mr Artur Lebieźniński, Chair of the Management Board; Mr Mateusz Matejewski, Deputy Chair of the Management Board responsible for Property Management; and Mr Włodzimierz Stasiak, Management Board member responsible for finance.

On 21 December 2015, the Supervisory Board passed a resolution dismissing Mr Artur Lebieźniński, Mr Mateusz Matejewski and Mr Włodzimierz Stasiak from the Management Board. At the same time, on 21 December 2015 the Supervisory Board passed a resolution delegating the Chair of the Supervisory Board, Ms. Izabela Felczak-Poturnicka, to temporarily act as Chair of the Management Board for a period

consolidated text of the Articles of Association is prepared by the Management Board. Amendments to the Articles of Association are filed by the Management Board with the registration court.

the Supervisory Board Rules and Regulations. The activities of the management and supervisory bodies of Polski Holding Nieruchomości S.A. are also regulated by the corporate governance principles adopted by the Warsaw Stock Exchange.

of up to 3 months, and a Supervisory Board member, Mr Zbigniew Kulewicz, to temporarily act as Deputy Chair of the Management Board for a period of up to 3 months.

Responsibilities of PHN S.A. Management Board members in 2015

In the part of the year 2015 when the Management Board consisted of three persons, the Chair supervised the following areas: commercial projects, residential projects, execution of investment projects, legal affairs, marketing, investor relations and PR, support for the Company's bodies, corporate governance, human resources and administration. The Deputy Chair of the Management Board responsible for Property Management supervised the following areas: rental of real estate, real estate management and the sale of real estate. The Management Board member responsible for finance supervised the following areas: accounting and finance and investment analysis.

Powers of the Management Board of PHN S.A.

The Management Board manages the Company's affairs and represents it in all matters in and out of court. All matters relating to the management of the Company's affairs, which are not reserved for the General Shareholders' Meeting or the Supervisory Board, in accordance with the law or the Articles of Association, are within the powers of the Management Board. All Management Board members are obliged and authorized to manage the Company's affairs jointly. In matters that do not require a Management Board resolution, the individual Management Board members may manage the Company's affairs individually, within the scope defined in the Management Board Rules and Regulations.

The Management Board is obliged to report significant events associated with the Company's operations to the Supervisory Board at least once a quarter. Such reports shall also contain statements of the Company's income, costs and financial results. The Supervisory Board may define the detailed scope of the above-mentioned reports.

Two Management Board members acting jointly or one Management Board member acting jointly with a proxy are authorized to make representations on behalf of the Company. If the Management Board consists of one person, the Chair of the Management Board is individually authorized to make representations on behalf of the Company. A proxy is appointed by unanimous resolution passed by all Management Board members. Each Management Board member can dismiss a proxy. The functions of the Management Board are defined in detail in the Management Board Rules and Regulations defined by the Management Board and approved by the Supervisory Board. Persons acting based on powers of attorney granted by the Management Board in accordance with the Civil Code are also authorized to make representations, sign agreements and incur liabilities on behalf of the Company.

Appointing and dismissing the Management Board of PHN S.A.

The Management Board of Polski Holding Nieruchomości S.A. may consist of one to six members, including the Chair and (if the Management Board consists of more than one person) also Deputy Chair and other Board members. The term of office of Management Board members is three years. The number of members may change during a term.

Management Board members are appointed and dismissed by the Supervisory Board after a qualification procedure performed on the basis of the Decree on the qualification procedure for the position of Management Board member in certain commercial companies. Each Management Board member can be dismissed or suspended by the General Shareholders' Meeting or the Supervisory Board. The Supervisory Board may suspend a Management Board member for important reasons. A Management Board member submits his resignation to the Supervisory Board in writing at the address of the Company's registered office, with a copy for the Minister of the State Treasury as long as the State Treasury is the Company's shareholder.

Organization of work of the PHN S.A. Management Board

Management Board meetings are generally held at least once a week. They are convened and presided over by the Chair of the Management Board or another Board member authorized by the Chair, on their own initiative or at the request of any member of the Management Board. Employees of the Company, its advisers and experts (also not employed by the Company) may be invited to the Management Board meetings if they are competent in the matters discussed at such meetings. An invitation may be either written or oral. Minutes are prepared during each Management Board meeting.

The Management Board makes decisions in the form of resolutions passed by an absolute majority of votes. In the event of a tie vote at the Management Board meeting, the Chair of the Board has the casting vote. Each Management Board member may cast one vote "for", "against" or "abstaining" on a given matter. Participation in voting is mandatory. Resolutions are voted on by open ballot. Voting by secret ballot is ordered in personal matters and at the request of a Management Board member.

Powers of PHN S.A. Management Board

The activities of the Management Board of PHN S.A. include managing all the Company's affairs that are not reserved for other corporate bodies by the provisions of the Commercial Companies Code or the Company's Articles of Association. All issues outside the normal operations of the Company require Management Board resolutions. They include in particular: adopting the Management Board Rules and Regulations, adopting the Organizational Rules and Regulations, opening and closing branches, appointing proxies, taking out loans and borrowings, adopting annual budgets and long-term strategic plans, acquiring (taking up) or disposing of the following assets: (i) real estate, perpetual usufruct or interest in real estate, (ii) tangible fixed assets other than real estate, (iii) shares or other interests in companies with a value exceeding EUR 200,000.00; encumbering assets that meet the criteria referred to above with limited property rights for an amount (amount of collateral) exceeding EUR 200,000.00; concluding other agreements on behalf of the Company other than those referred to above or incurring other liabilities with a value exceeding EUR 200,000.00; issues presented by the Management Board to the Supervisory Board or the General Shareholders' Meeting for consideration; determining the manner of voting at the General Shareholders' Meeting of the Company or of companies in which the Company holds shares; payment of interim dividend.

The Management Board is responsible for drawing up the plans mentioned above and submitting them to the Supervisory Board for approval. The Management Board may also pass resolutions in all other matters placed on the agenda of a Management Board meeting in an appropriate manner defined in the Management Board Rules and Regulations. Management Board members may take part in the process of passing resolutions by submitting a written vote through another Management Board member. Issues placed on the agenda during a Management Board meeting cannot be voted on in writing. The Management Board may pass resolutions in writing or with the use of the means of direct remote communication.

b) The Company's Supervisory Board

The Supervisory Board acts on the basis of the law, in particular the regulations concerning the activities of public commercial companies, the Articles of Association, resolutions of the

General Shareholders' Meeting and the Supervisory Board, Rules and Regulations and corporate governance principles, including in particular "Good Practices for Listed Companies".

Composition of the PHN S.A. Supervisory Board in 2015

Composition of the PHN S.A. Supervisory Board as at 1 January 2015

Name	Function
Józef Banach	Chair of the Supervisory Board
Izabela Felczak-Poturnicka	Deputy Chair of the Supervisory Board
Marzena Kusio	Secretary of the Supervisory Board
Antoni Leonik	Member of the Supervisory Board
Mateusz Matejewski	Member of the Supervisory Board
Marcin Marczuk	Member of the Supervisory Board
Krzysztof Melnarowicz	Member of the Supervisory Board

On 6 February 2015, Mr Mateusz Matejewski resigned from the position of Supervisory Board Member of the Issuer due to being appointed Deputy Chair – Management Board Member responsible for Property Management. On 24 June 2015, Mr Józef Banach resigned from the Company's Supervisory Board in connection with the provisions of Art. 4.1 of the Act on Remuneration of Managers of Certain Legal entities of 3 March 2000. On 28 July 2015, the Annual General Shareholders' Meeting dismissed Mr Antoni Leonik from the Supervisory Board and appointed Mr Bartłomiej Prus and Ms. Barbara Karczyńska Supervisory Board members. On 2 September 2015, the Extraordinary General Shareholders' Meeting dismissed Ms. Barbara Karczyńska from the Supervisory Board and appointed Mr Tomasz Zganiacz as a Supervisory Board member. Mr Tomasz Zganiacz resigned from the Supervisory Board for personal reasons on 30 November 2015. On 21 December 2015, the Company received a statement from the Minister of the State Treasury on the appointment of Mr Zbigniew Kulewicz to the Supervisory Board pursuant to § 32.2 of the Articles of Association.

Composition of the PHN S.A. Supervisory Board as at 31 December 2015

Name	Function
Izabela Felczak-Poturnicka	Chair of the Supervisory Board delegated to the Management Board
Bartłomiej Prus	Deputy chair of the Supervisory Board
Marzena Kusio	Secretary of the Supervisory Board
Zbigniew Kulewicz	Member of the Supervisory Board delegated to the Management Board
Marcin Marczuk	Member of the Supervisory Board
Krzysztof Melnarowicz	Member of the Supervisory Board

Appointing and dismissing the Supervisory Board of PHN S.A.

In accordance with the Articles of Association, the Supervisory Board consists of five to nine members who are appointed by the General Shareholders' Meeting for a joint three-year term. The number of Supervisory Board members is determined by the General Shareholders' Meeting. Pursuant to § 31.2 of the Articles of Association, the State Treasury shall be authorized to appoint and dismiss, in writing, one Supervisory Board member in the period in which the State Treasury is the Company's shareholder. Irrespective of the above, the State Treasury is entitled to elect the other Supervisory Board members at the General Shareholders' Meeting. The powers of the State Treasury defined above entered into force at the moment of admission of the Company's shares to trading on a regulated market. The Chair of the Supervisory Board is appointed by the General Shareholders' Meeting. Supervisory Board members elect the Deputy Chair and Secretary of the Supervisory Board at their first meeting.

Pursuant to § 31.4 of the Articles of Association, if due to the fact that the mandates of some of the Supervisory Board members have expired (for reasons other than dismissal) the Supervisory Board has fewer members than the number determined by the General Shareholders' Meeting (but at least five), the Supervisory Board is capable of passing valid resolutions.

Organization of work of the PHN S.A. Supervisory Board

The Supervisory Board holds meetings at least once in two months. Supervisory Board meetings are convened by sending a written notification to all members not later than seven days before the proposed date of the Supervisory Board meeting. The Supervisory Board may shorten this period to two days for important reasons, specifying the manner of delivery of the notification. Supervisory Board resolutions are passed by an absolute majority of votes. In the event of equal number or votes "for" and "against", the Chair of the Supervisory Board has the casting vote.

Supervisory Board members may take part in the process of passing resolutions by submitting a written vote through another Supervisory Board member. Issues placed on the agenda during a Supervisory Board meeting cannot be voted on in writing.

The Supervisory Board may pass resolutions in writing or using direct remote communication, subject to the provisions of Art. 388 § 4 of the Commercial Companies Code, with the exception of elections of the Deputy Chair and Secretary of the Supervisory Board, appointment of Management Board members and suspending Management Board members. In order to pass a resolution in writing, its draft and a statement of reasons must be presented to all Supervisory Board members beforehand. Resolutions passed in writing are presented at the next Supervisory Board meeting along with the result of the voting.

Powers of the PHN S.A. Supervisory Board

The activities of the Supervisory Board are regulated by the Company's Articles of Association and the Supervisory Board Rules and Regulations (as well as by the generally applicable laws). The Supervisory Board constantly supervises the Company in all aspects of its operations. The powers of the Supervisory Board include in particular: verification of the Directors' Report and the financial statements for the previous financial year for consistency with the books of account, documents and the facts. The same applies to the consolidated financial statements of the Group and its Directors' Report, evaluation of the Management Board proposals concerning appropriation of profit or offset of loss, submitting written reports on the activities mentioned above to the General Shareholders' Meeting, selection of a registered auditor to audit the financial statements, defining the scope and dates for the Management Board to submit annual budgets of the Company and the Group

and long-term strategic plans of the Company and the Group, approval of long-term strategic plans of the Company and the Group, approval of annual budgets of the Company and the Group, passing the Supervisory Board Rules and Regulations, adopting the consolidated text of the Articles of Association, approval of the Management Board Rules and Regulations, approval of the Organizational Rules and Regulations, approval of the remuneration policy applicable to members of the authorities of Group companies.

The powers of the Supervisory Board also include granting consent to the Management Board for: acquiring (taking up) or disposing of real estate, perpetual usufruct or interests in real estate with a value of EUR 500,000.00 or higher; encumbering assets; setting up of limited property rights; leasing real estate or perpetual usufruct for an amount (amount of collateral) exceeding EUR 1,500,000.00; providing real estate, perpetual usufruct or a share in real estate or perpetual usufruct for paid or unpaid use if the amount of liability is equal to or higher than EUR 5,000,000.00; acquiring, disposing of, encumbering, leasing or providing for paid use other fixed assets with a value of EUR 500,000.00 or higher; acquiring, disposing of, encumbering shares or other participating interests in companies (in the case of transactions with Group companies – if their value is equal to or higher than EUR 500,000.00); issuing bills of exchange, concluding agreements on behalf of the Company concerning donations, forgiveness of debt or other agreements not relating to the Company's business activities as described in the Articles of Association, in particular sponsoring agreements, with a value exceeding the equivalent of EUR 5,000.00; granting guarantees and warranties on behalf of the Company (in the case of agreements with Group companies, consent is required if the agreement's value is equal to or higher than EUR 1,500,000.00); issuing bonds other than specified in § 47.3.5 if the issue value is equal to or higher than EUR 500,000.00 or, in the case of registered bonds that can only be sold to Group companies, consent is required if the issue value is equal to or higher than EUR 1,500,000.00; concluding loan or borrowing agreements on behalf of the Company for amounts equal to or higher than EUR 500,000.00 (in the case of agreements with Group companies, consent is required if the loan amount is equal to or higher than EUR 1,500,000.00); concluding other agreements on behalf of the Company other than those referred to above or incurring other liabilities with a value equal to or exceeding EUR 500,000.00; payment of interim dividend; establishing a company; making investments with a value of EUR 1,500,000.00 or higher.

c) The Supervisory Board Audit Committee

The Supervisory Board appoints the Audit Committee composed of at least three Supervisory Board members, including at least one member who should satisfy the independence criteria within the meaning of Art. 86.5 of the Act on registered auditors and be qualified in the area of accounting or auditing. The Supervisory Board consisting of five members may perform the functions of an audit committee. The Supervisory Board may also appoint other committees, in particular the nomination committee and remuneration committee; however, no such committees were appointed in 2015. The detailed tasks of the committees, as well as the principles for their appointment and functioning, are defined in the Supervisory Board Rules and Regulations.

As at 1 January 2015, the Audit Committee consisted of the following Supervisory Board members: Mr Józef Banach, Ms. Izabela Felczak-Poturnicka, Ms. Marzena Kusio and Mr Marcin Marczuk. On 24 June 2015, Mr Józef Banach resigned from membership in the Company's Supervisory Board. In view of this, on 28 August 2015 the Supervisory Board passed a resolution appointing Mr Krzysztof Melnarowicz to the Audit Committee.

The audit committee is responsible in particular for: supervising the organizational units responsible for internal audit; monitoring the financial reporting process; monitoring the effectiveness of internal control, internal audit and risk management systems; monitoring the audit of the financial statements; monitoring the independence of the registered auditor and the audit firm, also with respect to non-audit services provided to the Company; recommending an audit firm to the Supervisory Board for performing the audit of the Company's financial statements.

12.3.9. The procedures of the General Shareholders' Meeting and its main powers

The General Shareholders' Meeting operates in accordance with the Articles of Association and the General Shareholders Meeting Rules and Regulations, which define in particular the procedures for the General Shareholders' Meeting operations, meetings and passing resolutions. The above-mentioned documents are available on the Company's website at www.phnsa.pl.

Convening and cancelling the General Shareholders' Meeting of PHN S.A.

The General Shareholders' Meeting can be held at the Company's registered office in Warsaw or elsewhere in the territory of the Republic of Poland. The General Shareholders' Meeting is convened by publishing an announcement on the corporate website of the Company and by publishing a current report. The announcement should be made not later than twenty-six days before the date of the General Shareholders' Meeting. The General Shareholders' Meeting can be annual or

As part of the execution of its tasks referred to above, the Audit Committee: analyses the information received from the Management Board on significant changes in accounting or financial reporting policies, as well as the estimates and judgements that could have a significant effect on the Company's financial reporting; provides the Supervisory Board with recommendations concerning approval of audited annual financial statements; examines internal control systems in order to ensure compliance with the law and internal regulations; examines internal audit systems and the work of the organizational unit responsible for internal audit; provides recommendations for selecting or changing the audit firm (external auditor), evaluates its work (in particular with respect to the auditor's independence); expresses opinions on the involvement of the external auditor in providing services other than an audit of the Company's financial statements and presents its position on the recommended Company policy in this respect; makes recommendations concerning the amount of remuneration payable to the external auditor for auditing the Company's financial statements or providing any other services to the Company; makes recommendations concerning the approval of significant agreements with the Company's related entities; monitors significant agreements concluded with related entities and other agreements concluded by the Company with its related entities (this includes an assessment of whether the remuneration paid is adequate to the services provided to the Company); submits to the Supervisory Board a report on its activities in a given financial year on a date that would allow the Supervisory Board to take this report into account in its annual assessment of the Company's situation.

extraordinary. The Annual General Shareholders' Meeting is convened by the Management Board once a year. It should be held within six months of the end of a financial year. The Company's Management Board convenes the Extraordinary General Shareholders' Meeting: on its own initiative; at the written request of the Supervisory Board; at the written request of a shareholder or shareholders in the manner defined in the Commercial Companies Code; at the written request of the State Treasury (as long as it is the Company's shareholder). Shareholders representing at least one half of the share capital or at least one half of all the votes at the Company may also convene an Extraordinary General Shareholders' Meeting. The Chair of the General Shareholders' Meeting shall be appointed by the shareholders.

The General Shareholders' Meeting may be cancelled if there are any extraordinary barriers to holding it (force majeure) or if it is manifestly groundless. A General Shareholders' Meeting

convened at the request of authorized parties or whose agenda contains issues requested by such parties cannot be cancelled without the consent of the interested parties. The General Shareholders' Meeting is cancelled in the same manner as it is convened. Any adverse consequences for the Shareholders should be kept to a minimum. The procedure for changing the date of the General Shareholders' Meeting is the same as the cancellation procedure, even when the proposed agenda is not changed.

Powers of the General Shareholders' Meeting of PHN S.A.

The powers of the General Shareholders' Meeting shall include: consideration and approval of the Company's financial statements and the Group's consolidated financial statements for the previous financial year and the Directors' Report of the Company and the Group; releasing the Management Board and Supervisory Board members from liability for the performance of their duties; appropriation of profit or offset of loss; changing the date of dividend payment or making a decision to pay dividend in instalments.

The following matters require a resolution of the General Shareholders' Meeting: appointing and dismissing Supervisory Board members; suspending and dismissing Management Board members in compliance with § 27.3.1) and 2). The following matters relating to the Company's assets require a resolution of the General Shareholders' Meeting: disposal and lease of the Company's enterprise or an organized part thereof and encumbering it with a limited property right; concluding (by the Company) a loan, borrowing, warranty or similar agreement with or on behalf of a member of the Management Board or Supervisory Board, proxy or liquidator; concluding any of the above-mentioned agreements by the Company's subsidiary with a Management Board member, proxy or liquidator of the Company; increase or decrease in the Company's share capital; issue of convertible bonds or bonds carrying pre-emptive rights, or issue of subscription warrants; acquisition of treasury shares in the circumstances specified in Art. 362 § 1.2 of the Commercial Companies Code; squeeze-out under Art. 418 of the Commercial Companies Code; creation, utilization and liquidation of reserves; utilization of supplementary capital; decisions concerning claims for redressing damages caused in connection with the formation, management or supervision of the Company.

Participation in the General Shareholders' Meeting of PHN S.A.

In accordance with the Commercial Companies Code, persons who are the Company's shareholders sixteen days before the date of the General Shareholders' Meeting (Record Date) have the right to participate in the General Shareholders' Meeting. One share carries one vote at the General Shareholders'

Meeting. The General Shareholders' Meeting is valid irrespective of the number of shares represented.

Before the date of the General Shareholders' Meeting, a shareholder or shareholders representing at least one-twentieth of the share capital may submit to the Company, in writing or using electronic communication, draft resolutions relating to the issues that have been or are to be placed on the agenda of the General Shareholders' Meeting. The Company shall publish draft resolutions on its webpage immediately.

During the General Shareholders' Meeting, the Management Board is obliged to provide information about the Company to a shareholder of the Company, at his request, if it is needed to evaluate an issue placed on the agenda of the General Shareholders' Meeting. For important reasons, the Management Board may provide information in writing outside the General Shareholders' Meeting. In such cases, the Management Board is obliged to provide information within two weeks of the date of the shareholder's request made at the General Shareholders' Meeting.

The Management Board shall refuse to give information if providing it could be detrimental to the Company, the Company's related entity or its subsidiary (or a cooperative which is the Company's subsidiary). This concerns in particular a technical, commercial or organizational secret of the enterprise. A Management Board member can refuse to give information if providing it could expose him or her to criminal, civil or administrative liability. Information provided to a shareholder of the Company should be made available to the general public in the form of a current report. A shareholder who has been refused the necessary information during the General Shareholders' Meeting and whose objection has been recorded in the minutes may submit a motion to the registration court to impose an obligation on the Management Board to provide such information. Such motion should be submitted within a week of the end of the General Shareholders' Meeting during which the information was refused. A shareholder may also submit a motion to the registration court to impose an obligation on the Company to publish information provided to another shareholder outside the General Shareholders' Meeting. In accordance with the applicable regulations, the Company shall be obliged to issue current reports containing information provided to shareholders by the Management Board under the obligation imposed by the registration court in the cases referred to above.

Every shareholder of the Company is entitled to request copies of motions concerning matters placed on the agenda of the next General Shareholders' Meeting. Such requests should be submitted to the Management Board. Copies of motions should

be provided not later than one week before the General Shareholders' Meeting.

The Company's shareholders shall have the right to appeal against resolutions passed by the General Shareholders' Meeting by bringing an action to revoke a resolution or declare it invalid. A resolution of the General Shareholders' Meeting which does not comply with the Articles of Association or good practices and is inconsistent with the Company's interests or harmful to a shareholder of the Company can be appealed against by bringing an action against the Company to revoke the resolution. An action to revoke a resolution of the General Shareholders' Meeting should be brought within a month of learning about the resolution, not later, however, than within three months of the date of passing it. A resolution of the General Shareholders' Meeting which is inconsistent with the Act can be appealed against in the form of an action brought against the Company to declare the resolution invalid. An action to declare a resolution of the General Shareholders' Meeting invalid should be brought within 30 days of its publication, not later, however, than within a year of the date of passing the resolution. The following bodies and persons shall have the right to bring an action to revoke a resolution of the General Shareholders' Meeting or declare it invalid: the Management Board, the Supervisory Board and their individual members; a Company's shareholder who voted against the resolution and requested that his objection be recorded in the minutes after the resolution was passed; a Company's shareholder who was not allowed to participate in the General Shareholders' Meeting without due reason; and the Company's shareholders who were not present at the General Shareholders' Meeting, provided that the General Shareholders' Meeting was not convened properly or the resolution passed concerned a matter that was not on the agenda.

13. Corporate social responsibility

Pursuing its concept of corporate social responsibility Polski Holding Nieruchomości S.A. in its business operations emphasizes sustainable building and environmental responsibility, and takes into consideration a wide scope of ethical and social issues.

13.1. Ethical operations

Polski Holding Nieruchomości S.A. is a socially responsible company, and in its business and social operations it follows the superior principle of respect for the law and responsibility for its impact on the environment. The reference point for Polski Holding Nieruchomości S.A. on issues related to ethics are the adopted corporate values, and the purpose of a series of activities undertaken is to ensure that all employees of the Polski Holding Nieruchomości S.A. Group are aware of the

A change in the rights of the Company's shareholders requires a resolution of the General Shareholders' Meeting passed by a majority of three quarters of the votes and it must be entered in the register of businesses of the National Court Register. Moreover, a resolution amending the Articles of Association, increasing the obligations of the Company's shareholders or reducing the rights granted personally to the Company's shareholders requires the consent of all the Company's shareholders concerned.

Pursuant to Art. 84 of the Public Offering Act, at the request of the Company's shareholder or shareholders holding at least 5% of the total number of votes, the General Shareholders' Meeting may pass a resolution to appoint an expert to examine, at the Company's expense, a specific issue relating to the Company's formation or the management of its affairs. For this purpose, such shareholders may request that an Extraordinary General Shareholders' Meeting be convened or such resolution be placed on the agenda of the next General Shareholders' Meeting. The request should be submitted in writing to the Management Board not later than one month before the proposed date of the General Shareholders' Meeting. If the Extraordinary General Shareholders' Meeting is not convened within two weeks of submitting such request to the Management Board, the registration court may, after demanding a statement from the Management Board, authorize the Company's shareholders who made that request to convene the Extraordinary General Shareholders' Meeting. The court shall appoint the chair of such Extraordinary General Shareholder's Meeting. A resolution of the General Shareholders' Meeting on the appointment of a special auditor should specify in particular: identification of the special auditor who has been approved by the requester in writing; the subject matter and scope of the examination, consistent with the request, unless the requester has agreed in writing to change them.

CSR (Corporate Social Responsibility) is a concept of sustainable business in accordance with which in the management process enterprises take into consideration not only economic aspects but also activities relating to social and ecological interests.

binding procedures and desired stance on ethics and on issues related to corporate governance.

One of the key purposes of our actions is to enhance our management methods by ensuring attention to operating ethics and transparency of business processes, and enhancing our organizational culture by basing it on a strong and consistent system of values. Additionally, all the information, advertising and marketing actions of Polski Holding Nieruchomości S.A. are

conducted in accordance with transparency and information openness policies, in line with maintaining confidentiality and

principles governing trade secrets.

13.2. Actions on behalf of the community

Polski Holding Nieruchomości S.A. would like to add its building block to the positive changes occurring in the landscape of Warsaw and other Polish cities. We believe that through art, history and education we are building a conscious, modern society. It is also our goal to ensure that each of the new investments endorsed by PHN S.A. stands out and contributes to the creation of modern and functional municipal space.

Therefore, we have decided to sponsor the cyclic event "Festiwal Budynków" (Buildings Festival) organized by the Centrum Architektury Foundation and to engage in cooperation with the Association of Polish Architects (SARP). The Polski Holding Nieruchomości S.A. Group also supports key cultural events such as the Festival of Baroque Operas Drama Per Musica and the Festival of Polish Feature films in Gdynia.

Sponsorship of the Buildings Festival

The Centrum Architektury Foundation, one of the most dynamically developing organizations, the aim of which is to popularize knowledge of architecture, proposes that Warsaw's citizens participate in a cyclical event called "the Buildings Festival". This project allows participants to take part in a series of events focused on the architecture and epoch of one selected building. The Company is the sponsor of the event. In 2015 two events took place organized around the headquarters of the Central Committee of the Polish United Workers' Party and the Warsaw School of Economics. Two events are also planned for 2016, organized around the best buildings constructed in the 20th and 21st centuries.

Cooperation with SARP

Polski Holding Nieruchomości S.A. concluded a partnership agreement with the Association of Polish Architects based on which it will support the operations of SARP and contribute to promoting ambitious architectural initiatives in Warsaw and throughout the country. Cooperation with SARP is part of the Company's long-term strategy and refers to the nature of development projects of Polski Holding Nieruchomości S.A., which stipulate their original and timeless architecture and the high standard of the solutions adopted

Participation of the Intraco office building in the Night of the Skyscrapers

On 23 May 2015 the first Night of the Skyscrapers event took place during which participants had the unique opportunity to see the city from the highest floors of skyscrapers which are usually inaccessible. The event was organized by the Nowa Warszawa portal. Forty-six thousand people participated in the first event. During the event Polski Holding Nieruchomości S.A. made the Intraco skyscraper located at ul. Stawki 2 in Warsaw available to participants.

Celebration of the 71st anniversary of the Warsaw Uprising

Once again the anchor of the fighting Poland appeared on the INTRACO building on 1 August 2015. In this symbolic manner Polski Holding Nieruchomości S.A. participated in the celebrations of the 71st anniversary of the Warsaw Uprising. The anchor was made up of lights lit in 72 windows on 8 floors between the 30th and 37th, thanks to the support of the tenants who made their office space available.

Participation in the 6th Charity Beach Netball Tournament

The netball team of Polski Holding Nieruchomości S.A. came 9th in the 6th Charity Beach Netball Tournament of the Commercial Facility Construction Industry organized by Jones Lang LaSalle. Around 1500 people participated in the event, of which 280 were the players of 40 teams. A record amount of PLN 292,000 was collected and forwarded to the Children's Foundation "Zdążyć z Pomocą".

Festival of Baroque Operas Drama Per Musica

Polski Holding Nieruchomości S.A. entered into cooperation with the association of Baroque music lovers Stowarzyszenie Miłośników Sztuki Barokowej Drama Per Musica. The association co-organized the 1st Festival of Baroque Operas in Warsaw at the Royal Łazienki, between 4 and 20 September 2015.

13.3. Effect on the environment

The BREEAM certificate is an international environmental certificate for a building. The building is graded in nine categories: management, health and wellbeing, energy, transport, water, waste, materials, use of terrain and ecology, contamination. The Domaniewska Office Hub commissioned in

July 2015 came second in Poland with a result of 74.19% on the list of office buildings which received a BREEAM (Final) certificate at the Excellent level, thus outdistancing 34 other buildings. In the general classification of all buildings in Poland the Domaniewska Office Hub came third.

Ecological solutions in DOH	Ecological solutions in ABC	Installation of the ActivTek System
<p>In preparing the Domaniewska Office Hub (commissioned in 2015) the Company took care to design and construct it according to the highest standards and sustainable construction. Additionally, the Company ensured that the building has a distinctive extensive external garden courtyard with verdure and small architecture elements such as: benches, garden lamps and bicycle stands with the appropriate infrastructure. As a result, in 2015 the Domaniewska Office Hub received a BREEAM (Final) certificate for sustainability of design at the Excellent level.</p>	<p>The modern Andersia Business Center in Poznań acquired in 2015 is distinguished by its modern character, approach to ecology and care for the comfort of employees. The Andersia Business Center was awarded an LEED certificate at the GOLD level, among other things, for installing equipment to reduce water and energy use. Employees who value healthy lifestyles can use the infrastructure for cyclists and the specially designed climbing elements on the staircases.</p>	<p>In its care for the quality of work in the Kaskada City building, the Company installed the ActivTek System – a system which improves the quality of air. The office building was equipped with a system for comprehensive elimination of the issue of harmful fungi, moulds, bacteria, viruses and allergens. The installed technologies enabled eliminating the SBS – Sick Building Syndrome which manifests itself in typically allergic ailments, irritation of the mucous membranes, headaches and vertigo, migraines, irritation, concentration disorders, unnatural fatigue, significant drop in mood, and skin problems.</p>

14. Other information

14.1. Agreements relating to loans and borrowings

In 2015 Group companies concluded loan agreements the details of which are shown in Note 40 to the consolidated financial statements.

In 2015 and as of the date of those financial statements group companies have not granted any borrowings to companies outside the Group.

14.2. Issue of securities

In 2015 Group companies did not issue any securities which would be taken up by entities from outside the Group.

14.3. Warranties and guarantees granted and received during the year

To secure repayment of the dues resulting from a loan agreement concluded for the financing of the purchase of an interest in the Kaskada property with refinancing the Group's own contribution invested in the property and for the performance bond, subsidiaries of PHN S.A. set up the following collateral on behalf of Bank Ochrony Środowiska S.A.:

- (i) a registered pledge on the borrower's shares held by PHN S.A.;
- (ii) financial and registered pledges on dues from the borrower's bank account agreements;
- (iii) powers of attorney to dispose of the borrower's bank accounts with an order to block funds;
- (iv) a joint contractual mortgage with equal pre-emptive rights to apartments constituting separate properties located in the building at Al. Jana Pawła II 12 with assignment of insurance policy rights;
- (v) the borrower's declaration of voluntary submission to execution based on art. 97 of the Banking Law;
- (vi) assignment of the rights of the borrower following from – among other things – rental agreements;
- (vii) a provision for servicing the debt – a security deposit in the amount of three times the monthly servicing fee.

To secure repayment of the dues resulting from a loan agreement concluded for the financing of the purchase of Andersia Business Centre Sp. z o.o. property and for the

performance bond, subsidiaries of PHN S.A. set up the following collateral on behalf of Bank Zachodni WBK S.A.:

- (i) registered and financial pledges of shares in PHN SPV 15 Sp. z o.o. (hereinafter "the Borrower") owned by the Group companies;
- (ii) financial and registered pledges on dues in respect of the Borrower's bank account agreements with powers of attorney and declarations of voluntary submission to execution based on art. 777 of the Code of Civil Procedure;
- (iii) contractual mortgage on the credited property located at Pl. Andersa 7 in Poznań with an assignment of rights from a property insurance policy;
- (iv) assignment of the rights of the borrower following from – among other things – rental agreements;
- (v) the Borrower's submission to enforcement based on art. 777 of the Code of Civil Procedure;
- (vi) the obligation to conclude an IRS transaction secured with mortgage and a declaration of voluntary submission to enforcement based on art. 777 of the Code of Civil Procedure.

14.4. Court, arbitration and administrative proceedings

As at 31 December 2015 and as at the date of preparing these financial statements, no litigation was in progress in respect of the Group companies before the court, arbitration court or public

administration body, the value of which – on an individual or joint basis – would amount to at least 10% of the parent company's equity.

14.5. Contract with the registered audit company

The audit and review of the financial statements as at and for the year ended 31 December 2015 and 31 December 2014 were carried out by the registered audit company

PricewaterhouseCoopers Sp. z o. o. The contract for the audit of the financial statements as at and for the year ended 31 December 2015 was concluded on 26 May 2015.

This report was authorized by the Management Board of the Parent Company on 15 March 2016.

Zbigniew Kulewicz

Vice-President – Member of the Management Board in charge of Property Asset Management

Maciej Jankiewicz

President of the Management Board