CAPITAL GROUP

POLSKI HOLDING NIERUCHOMOŚCI SPÓŁKA AKCYJNA

Consolidated annual report for the year 2015

Polski Holding Nieruchomości S.A.

The consolidated 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 consolidated financial statements for the year ended 31 December 2015**
4. **Consolidated financial statements for the financial year ended 31 December 2015**
5. **Polski Holding Nieruchomości S.A. Capital Group Management Board 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.

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	159.7	166.5	38.2	39.8
II. Profit/(loss) on operating activities	(12.1)	12.5	(2.9)	3.0
III. Profit/(loss) before tax from continuing operations	(22.2)	13.7	(5.3)	3.3
IV. Net profit/(loss)	50.8	107.8	12.1	25.8
V. Cash flows from operating activities	46.3	10.6	11.1	2.5
VI. Cash flows from investing activities	(136.9)	(6.0)	(32.7)	(1.4)
VII. Cash flows from financing activities	80.7	(86.0)	19.3	(20.6)
VIII. Total net cash flows	(9.9)	(81.4)	(2.4)	(19.5)
	As at 31 December 2015	As at 31 December 2014	As at 31 December 2015	As at 31 December 2014
IX. Assets	2 514.0	2 283.4	589.9	535.8
X. Non-current liabilities	344.6	98.6	80.9	23.1
XI. Current liabilities	186.7	184.1	43.8	43.2
XII. Equity attributable to equity holders of the parent company	1 949.8	1 947.1	457.5	456.9
XIII. Share 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 share attributable to equity holders of the parent company (in PLN/EUR)	1.05	2.29	0.25	0.55
XVI. Book value per share attributable to equity holders of the parent company (in PLN/EUR)	41.73	41.89	9.79	9.83

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

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CONSOLIDATED FINANCIAL STATEMENTS OF POLSKI HOLDING NIERUCHOMOŚCI S.A.

FOR THE YEAR ENDED 31 DECEMBER 2015

PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION

POLSKI HOLDING NIERUCHOMOŚCI S.A.

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

A. Consolidated financial statements

Consolidated statement of financial position
As at 31 December 2015

	Note	31 December 2015	31 December 2014
Non-current assets			
Investment properties	8	2 015.4	1 924.1
Property, plant and equipment	9	45.8	22.5
Intangible assets	10	0.1	0.1
Investments in associates and co-subsidiaries	11	26.2	18.6
Deferred tax assets	21	47.5	12.5
Non-current financial assets	12	2.8	0.0
Other non-current assets	13	6.0	1.1
Total non-current assets		**2 143.8**	**1 978.9**
Current assets			
Inventories related to property development	14	62.2	35.8
Trade receivables and other assets	15	121.4	119.1
Income tax receivables		2.3	1.2
Cash and cash equivalents	16	126.5	136.4
Total current assets		**312.4**	**292.5**
Assets held for sale	17	57.8	12.0
Total assets		**2 514.0**	**2 283.4**
Current liabilities			
Trade and other payables	18	(128.9)	(135.1)
Current debt	19	(8.1)	(0.3)
Prepayments related to property development	20	(2.2)	(2.7)
Income tax liabilities		(0.2)	(0.3)
Current provisions	22	(47.3)	(45.7)
Total current liabilities		**(186.7)**	**(184.1)**
Non-current liabilities			
Non-current debt	19	(304.9)	(15.0)
Deferred tax liabilities	21	(20.4)	(55.2)
Non-current provisions	22	(16.4)	(26.1)
Other non-current liabilities	18	(2.9)	(2.3)
Total non-current liabilities		**(344.6)**	**(98.6)**
Total liabilities		**(531.3)**	**(282.7)**
Net assets		**1 982.7**	**2 000.7**
Equity			
Share capital	23	46.7	46.5
Reserve capital	24	1 812.5	1 746.7
Revaluation reserve	25	3.0	3.2
Retained earnings	26	87.6	150.7
Equity attributable to equity holders of the parent company		**1 949.8**	**1 947.1**
Non-controlling interests		32.9	53.6
Total equity		**1 982.7**	**2 000.7**

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

Consolidated statement of comprehensive income
For the year ended 31 December 2015

	Note	Year ended 31 December 2015	Year ended 31 December 2014
Operating activities			
Lease revenue	29	127.4	120.8
Property maintenance costs	30	(67.3)	(65.3)
Profit / (loss) on lease activities		**60.1**	**55.5**
Revenue from property development	29	26.6	45.4
Cost of property development	30	(17.9)	(34.2)
Profit/ (loss) on property development		**8.7**	**11.2**
Revenue from other activities	29	5.7	0.3
Cost of other activities	30	(4.2)	(0.6)
Profit / (loss) on other activities		**1.5**	**(0.3)**
Administrative and selling expenses		(38.4)	(38.5)
Change in the fair value of investment properties	8	(90.6)	(39.9)
Gain (loss) on disposal of investment properties	8	6.8	0.4
Other revenues	29	54.5	45.1
Other costs	30	(14.7)	(21.0)
Profit / (loss) on operating activities		**(12.1)**	**12.5**
Finance income	32	2.7	3.1
Finance costs	32	(13.4)	(2.6)
Net profit / (loss) from financing activities		**(10.7)**	**0.5**
Shares in profits of associates and jointly controlled entities	11	0.6	0.7
Profit / (loss) before tax from continuing operations		**(22.2)**	**13.7**
Income tax expense	33	72.8	94.3
Net profit from continuing operations		**50.6**	**108.0**
Net profit/(loss) from discontinued operations	34	0.2	(0.2)
Net profit		**50.8**	**107.8**
Other comprehensive income:			
Hedging instruments		(0.2)	0.0
Other comprehensive income		**(0.2)**	**0.0**
Total comprehensive income		**50.6**	**107.8**
Net profit attributable to			
equity holders of the parent company		49.1	105.1
non-controlling interests	35	1.7	2.7
Comprehensive income attributable to:			
equity holders of the parent company		48.9	105.1
non-controlling interests	35	1.7	2.7
Basic and diluted net earnings per share attributable to equity holders of the parent company	36	PLN 1.05	PLN 2.29
Basic and diluted net earnings from continuing operations per share attributable to equity holders of the parent company	36	PLN 1.05	PLN 2.29

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

Consolidated statement of changes in equity
For the year ended 31 December 2015

		Equity attributable to equity holders of the parent company						
	Note	Share capital	Reserve capital	Revaluation reserve	Retained earnings	Equity attributable to equity holders of the parent company	Non-controlling interests	Total equity
As at 1 January 2015		46.5	1 746.7	3.2	150.7	**1 947.1**	53.6	**2 000.7**
Net profit for the year					49.1	**49.1**	1.7	**50.8**
Other comprehensive income – hedging instruments				(0.2)		**(0.2)**		**(0.2)**
Total comprehensive income for the period				(0.2)	49.1	**48.9**	**1.7**	**50.6**
Payment of dividend					(60.7)	**(60.7)**		**(60.7)**
Issue of shares	23	0.2	5.7			**5.9**		**5.9**
Changes in the structure of non-controlling interests	26				8.6	**8.6**	(22.4)	**(13.8)**
Transfer between equity items	26		60.1		(60.1)	**0.0**		**0.0**
As at 31 December 2015		**46.7**	**1 812.5**	**3.0**	**87.6**	**1 949.8**	**32.9**	**1 982.7**
As at 1 January 2014		**44.6**	**1 696.9**	**3.2**	**117.0**	**1 861.7**	**131.0**	**1 992.7**
Net profit for the year					105.1	**105.1**	2.7	**107.8**
Total comprehensive income for the period					**105.1**	**105.1**	**2.7**	**107.8**
Payment of dividend					(99.8)	**(99.8)**		**(99.8)**
Issue of shares		1.9	49.8			**51.7**		**51.7**
Changes in the structure of non-controlling interests					28.4	**28.4**	(80.1)	**(51.7)**
As at 31 December 2014		**46.5**	**1 746.7**	**3.2**	**150.7**	**1 947.1**	**53.6**	**2 000.7**

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

Consolidated statement of cash flows

For the year ended 31 December 2015

	Note	Year ended 31 December 2015	Year ended 31 December 2014
Cash flows from operating activities			
Profit / (loss) before tax		**(22.0)**	**13.5**
Adjustments to cash flows from operating activities		**68.3**	**2.1**
Amortization and depreciation		1.4	1.3
Settlement of decoration costs		2.8	2.7
Change in the fair value of investment properties and profit / (loss) on disposal		83.8	39.5
Change in the value of other assets and profit / (loss) on disposal	16	(19.8)	(6.1)
Share in profits (losses) of co-subsidiaries		(0.6)	(0.7)
Interest income from investing activities		(1.3)	(3.0)
Borrowing costs		5.6	0.0
Change in working capital	16	0.4	(22.1)
Income tax paid		(4.0)	(9.5)
Cash flows from operating activities		**46.3**	**15.6**
Cash flows from investing activities			
Total inflows		**41.3**	**46.9**
Sale of investment properties		39.2	42.8
Sale of property, plant and equipment and intangible assets		0.3	0.5
Interest from investing activities		1.3	3.0
Dividends		0.5	0.6
Total outflows		**(178.2)**	**(55.6)**
Expenditure on investment properties		(118.8)	(55.5)
Purchase of property, plant and equipment and intangible assets		(0.0)	(0.1)
Purchase of subsidiaries, less acquired cash of these subsidiaries		(49.1)	0.0
Purchase of shares in co-subsidiaries		(7.5)	0.0
Loans		(2.8)	0.0
Net cash flows from investing activities		**(136.9)**	**(8.7)**
Cash flows from financing activities			
Total inflows		**175.6**	**16.5**
Loans		175.6	16.5
Total outflows		**(94.9)**	**(104.8)**
Loans		(28.2)	(2.2)
Repayment of finance lease liabilities		(0.4)	(0.5)
Dividends		(60.7)	(99.8)
Redemption of shares		(5.6)	(2.3)
Net cash flows from financing activities		**80.7**	**(88.3)**
Total net cash flows		**(9.9)**	**(81.4)**
Change in cash and cash equivalents in the balance sheet		**(9.9)**	**(81.4)**
Cash and cash equivalents at the beginning of the period		**136.4**	**217.8**
Cash and cash equivalents at the end of the period		**126.5**	**136.4**

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Accounting policies and notes to the consolidated financial statements

1. General information

1.1 General information about the Company

Polski Holding Nieruchomości S.A. ("PHN S.A.", "the Parent Company", "the Company") located in Warsaw at Al. Jana Pawła II 12 is the Parent Company of the Polski Holding Nieruchomości S.A. Group. The Group consists of PHN S.A. and its subsidiaries (referred to jointly as "the Group"). As at the balance sheet date, the State Treasury was the entity controlling PHN S.A.

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.

1.2 Composition of the Management Board

According to the provisions of PHN S.A.'s Articles of Association, the Management Board is composed of one to six persons. In the reporting period, the composition of the Management Board was as follows:

In the period from 1 January 2015 to 5 February 2015

Mr Artur Lebiedziński – President of the Board

Mr Włodzimierz Stasiak – Board Member responsible for Finance

In the period from 6 February 2015 to 21 December 2015

Mr Artur Lebiedziński – President of the Board

Mr Mateusz Matejewski – Vice-President – Board Member responsible for Property Management

Mr Włodzimierz Stasiak – Board Member responsible for Finance

On 21 December 2015, the Supervisory Board dismissed Mr Artur Lebiedziński, 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.

1.3 Management representations

1.3.1 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 consolidated financial statements and comparative data have been prepared in accordance with the accounting policies applicable to the Group, they give a true, fair and clear view of the Group's financial position and results of operations, and that the Group Directors' Report gives a true view of the development and achievements as well as the position of the Group, including a description of the basic threats and risk.

1.3.2 Concerning the entity authorized to audit the consolidated financial statements

The Management Board of Polski Holding Nieruchomości S.A. hereby declares that the entity authorized to audit the consolidated 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 consolidated financial statements, in accordance with the applicable laws and professional standards.

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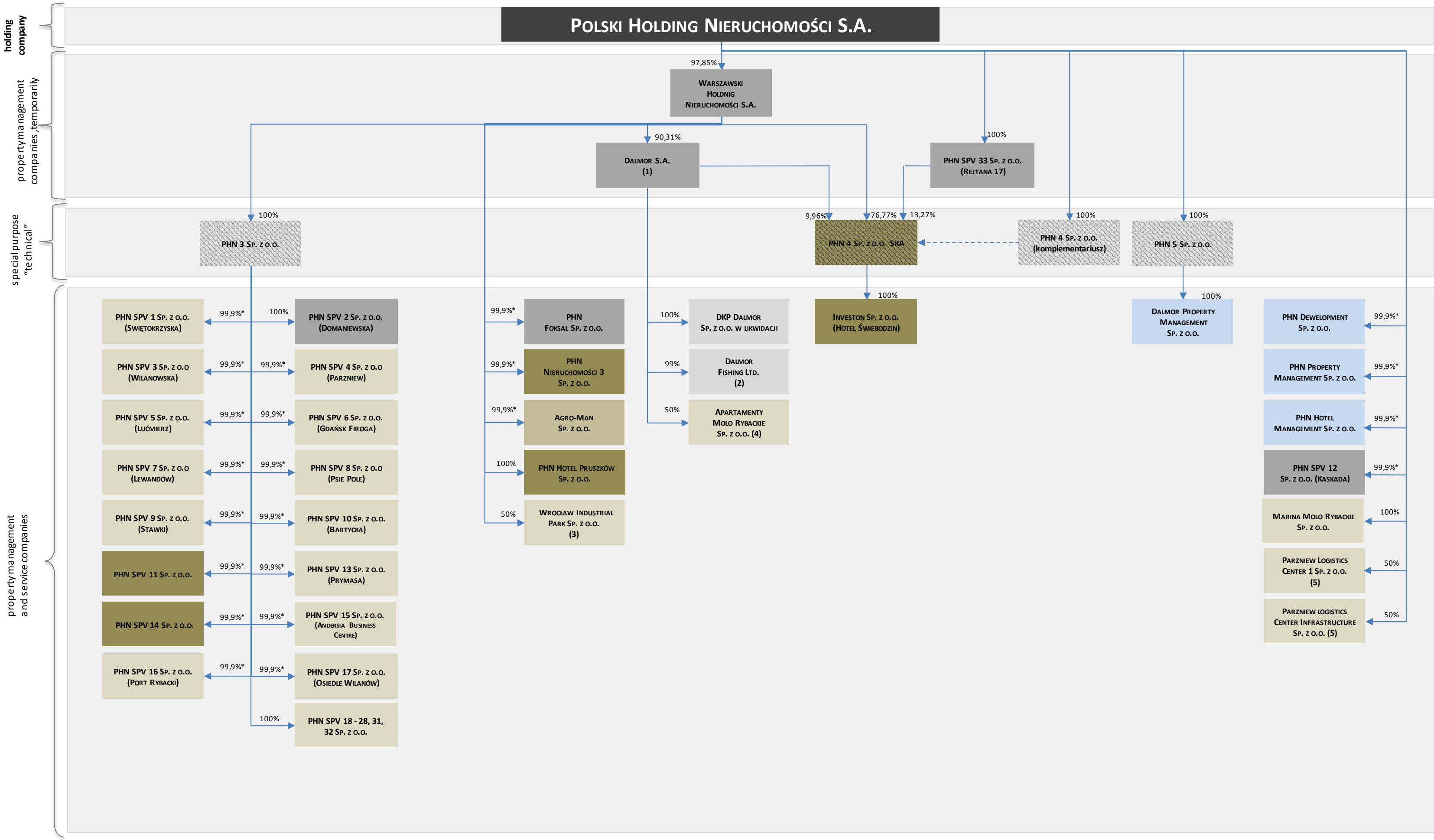
1.4 The Group's structure



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

Company designated for executing property development projects (investments)
Housing development activities
Special purpose companies with properties for sale
Service companies
Other (without properties)
Asset management (lease)
Special purpose technical companies

(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 Parzniew Partners B.V. (50%)

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2. Basis of preparation of the consolidated financial statements

These consolidated 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 consolidated 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 Group continuing in operation.

The duration of the operations of the Parent Company and the Group entities is unlimited.

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

The consolidated 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 consolidated 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 Group. The issues that require exercising significant judgement or which 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 5.3.

3. New standards and interpretations issued but not yet effective

In these consolidated financial statements the Group did not decide to apply early the following published standards, interpretations or improvements to the existing standards before the date of their coming into force.

- ✓ **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 a single 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 determining 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 hedge accounting to risk management.

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

  As at the date of preparation of these consolidated 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 for annual periods beginning on or after 1 February 2015.

  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 Group 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 or after 1 February 2015.

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

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- **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 improve 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 acquisition of interest in a joint operation**

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 Group will apply the amendment as from 1 January 2016.

- **Amendments to IAS 16 and IAS 38 concerning depreciation and amortization**

The amendments clarify that the application of the revenue-based method of depreciation and amortization is not appropriate because revenue generated in operations which make use of the assets in question also reflect factors other than the consumption of the economic benefits embodied in the asset.

The amendments are effective for annual periods beginning on 1 January 2016.

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

As at the date of preparation of these consolidated 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 a joint venture constitute a business.

When the non-monetary assets do constitute a business, the investor shall show 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 amendments were issued on 11 September 2014. 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.

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The Group 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 or 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 Group will apply the above amendments as from 1 January 2016.

✓ **Amendments to IFRS 10, IFRS 12 and IAS 28 concerning excluding investment entities from consolidation**

In December 2014, the International Accounting Standards Board issued the so-called narrow-scope amendment. Amendment to IFRS 10, IFRS 12 and IAS 28 titled *Investment Entities: Applying the Consolidation Exception* specifies the requirements concerning investment entities and introduces certain facilitations.

The standard clarifies that an entity should measure all of its subsidiaries which are investment entities at fair value through profit or loss. Moreover, it has been clarified that the exemption from preparing consolidated financial statements when the higher level parent company prepares publicly available financial statements applies regardless of whether the subsidiaries are consolidated or measured at fair value through profit or loss in accordance with IFRS 10 in the financial statements of the top or higher level parent company. The amendments are effective for annual periods beginning on 1 January 2016.

The Group will apply the above amendments as from 1 January 2016.

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

✓ **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.

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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.

4. Significant accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the Group's consolidated financial statements for the year ended 31 December 2013, except for:

- the application of hedge accounting in the financial year:
  - ✓ fair value hedges in connection with hedging the fair value of properties against the risk of EUR/PLN fluctuations (currency risk);
  - ✓ cash flow hedges in connection with hedging cash flows from interest expense against the risk of interest rate fluctuations in the loan drawn for property financing.
- 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.

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 Group.

  - ✓ **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 Group's financial position or results of operations or the scope of the information presented in the Group's financial statements

4.1 Investment properties

Property which was acquired or constructed for the purpose of generating benefits from its lease or from an increase in its value, or from both, and which is not used by the PHN Group companies for administrative purposes, is classified as investment property. Investment property comprises land, freehold buildings and perpetual usufruct of land. Rights to perpetual usufruct of land are treated as land ownership and classified either as property, plant and equipment or as investment properties, depending on their nature.

Initially, investment properties are recognized at purchase price or cost of manufacture.

After initial recognition investment properties are stated at fair value based on the comparative valuation method, income valuation method or residual value method. The fair value determined using the income method is calculated using the expected cash flows based on the prices prevailing on an active market adjusted – if necessary – for the difference in the type, location or status of a given asset. Valuations are performed annually by independent surveyors in accordance with the Practice Statements of the Royal Institution of Chartered Surveyors' (RICS) Appraisal and Valuation Standards (the "Red Book"). Remuneration for investment property valuation is not linked to the value of the investment property or valuation result.

The fair value of investment property reflects, among others, revenues from current lease agreements and assumptions relating to lease revenues under future agreements based on

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current market conditions. The carrying amount of investment property is increased by any subsequent expenditure if, and only if, it is probable that future economic benefits that are related to the asset will flow to the Group, and its value can be assessed in a reliable manner. All other repair and maintenance costs are recognized in the profit/loss for the period in which they are incurred.

Gains or losses arising from changes in the fair value of investment properties are recognized in the consolidated statement of comprehensive income for the period in which they originated. Gain/loss on disposal of investment property is disclosed in a separate item of the consolidated statement of comprehensive income.

If an investment property is an owner-occupied property, it is reclassified into fixed assets and its fair value as at the date of reclassification is treated as a cost for the purpose of fixed assets measurement.

4.2 Property, plant and equipment

Property, plant and equipment held by the Group comprise:

- ✓ property (not leased and not held for trading) used by the Group for administrative purposes or for the purpose of operating hotels;
- ✓ plant and machinery;
- ✓ motor vehicles;
- ✓ other assets which are complete and ready for use with an expected useful life of more than one year.

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 Group 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 a separate item, but only if it is probable that future economic benefits will flow to the Group 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 consolidated statement of comprehensive income. 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 statement of comprehensive income under "other operating income" and "other operating expenses".

Assets under construction

Assets under construction of Group companies 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.

4.3 Intangible assets

Intangible assets of the Group comprise computer software. Acquired computer software licences are capitalized in the amount of costs incurred on their purchase and preparing the software for use. These costs are amortized on a straight-line basis over the period of their economic useful lives (up to 5 years).

Intangible assets are recognized if it is probable that the future economic benefits that are directly attributable to the asset will flow to the Group. Initially intangible assets are recorded at acquisition cost or cost of production. Following initial recognition, intangible assets are stated at acquisition cost or cost of production less accumulated amortization and impairment losses.

Intangible assets are amortized using the straight-line method over their estimated useful lives, which are verified on a quarterly basis. The expected useful lives are as follows:

- concessions, patents, licences, etc. – up to 5 years;
- other assets – up to 5 years.

Intangible assets are assessed for impairment if events or a change in circumstances indicate that their carrying amount may not be recoverable. Impairment losses are recognized in the amount by which the asset's carrying amount exceeds its recoverable amount.

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4.4 Measurement of items denominated in foreign currencies

4.4.1 Functional currency and presentation currency

Items included in the consolidated financial statements of the Group are measured in the currency of the primary economic environment in which the entity operates ("functional currency"). All the Group companies have the same functional and presentation currency, which is the Polish zloty (PLN). The consolidated financial statements are presented in Polish zlotys (PLN).

4.4.2 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 profit or loss.

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 gains or losses are presented in the statement of comprehensive income under other income/other expenses. 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 consolidated statement of comprehensive income 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.

4.5 Impairment of non- financial assets

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by 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.

4.6 Operating and finance leases

(a) The Group as the lessor

Property under operating lease agreements is recognized in the consolidated statement of financial position under investment properties. Fees under operating lease agreements are recognized as revenues in the consolidated statement of comprehensive income on a straight line basis over the term of the lease. The Group does not hold investment property under finance lease agreements.

(b) The Group as the lessee

✓ Operating leases

Leases whereby the major part of the risks and benefits from ownership remains with the lessor comprise operating leases.

Lease fees under operating lease agreements are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

✓ Finance leases

Lease agreements are classified as finance leases if substantially all of the risks and rewards of ownership of an asset are transferred to the lessee. Assets under finance leases are capitalized at origination of the lease at the lower of the fair value of the asset and the present value of minimum lease payments. Lease payments are apportioned between the financial liability and finance costs so as to produce a constant rate of return. The respective lease (rental) liabilities reduced by finance costs are recognized as current or non-current debt. Interest on finance costs is recognized in the consolidated statement of comprehensive income over the lease term so as to produce a constant interest rate on the outstanding lease liability in each period.

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4.7 Financial assets

The Group 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 Group 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 consolidated 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 the 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 Group commits to purchase or sell a given asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or were transferred and the Group has transferred substantially all the risks and rewards of ownership. Financial assets available for sale and financial assets carried at fair value through profit or loss are subsequently measured at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method.

4.8 Trade and other receivables

Trade and other receivables are initially recorded in the consolidated statement of financial position at fair value; subsequently, trade and other receivables are stated at amortized cost using the effective interest rate method (if it is significantly lower) 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 Group will not be able to recover all amounts due and receivable under the original terms and conditions. The objective evidence of receivables' impairment includes serious financial problems of debtors or significantly delayed payments. The amount of the write-down is the difference between the receivable's 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 expenses. Any future repayments of receivables for which an impairment allowance was recognized are taken to "other income" in the consolidated statement of comprehensive income.

Prepayments for inventories are stated at the amount of cash expensed.

If, however, the difference between amortized cost and the amount due and receivable does not have any material effect on the Group's financial results, such receivables are stated in the consolidated statement of financial position in the amount due and receivable.

4.9 Inventories

Included in inventories are semi-finished goods, work in progress, finished goods, goods for resale and prepayments for inventories. Due to the specific nature of operations, purchased land or fees for the right to perpetual usufruct are classified as work in progress if the purchased land is earmarked for development, or as goods for resale if the purchased land is earmarked for sale. Finished goods comprise mainly private accommodation or usable space (premises) sold based on final agreements.

Stocks of current assets are stated at the acquisition cost of land and at the cost of property development products increased by capitalized finance costs.

Inventories are stated at amounts no higher than their net realizable value. The net realizable value is determined based on information from an active market. Impairment of inventories is reversed either on their disposal or on an increase in their net realizable value. Inventories' impairment losses recognized or reversed in the period and recognized as revenue are disclosed in the consolidated statement of comprehensive income under costs of property development

The Group classifies its housing stock as current assets or non-current assets according to the stage of their development (completion) under the operating cycle of the given company. Usually a normal operating cycle lasts from 1 to 5 years. As at

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31 December 2015 and 31 December 2014, all open housing projects were disclosed under inventories related to development activities in the consolidated statement of financial position.

Investment properties which are adapted for future sales are reclassified to inventories at deemed cost, i.e. at their carrying amount at the date of reclassification. After initial recognition they are stated at cost of development no higher than their net realizable value. Net realizable value is the estimated selling price achievable in the ordinary course of business less the estimated costs of project completion and costs to sell.

4.10 Cash and cash equivalents

Cash at bank, cash in 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 consolidated statement of cash flows under cash flows from investing activities.

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.

4.11 Discontinued operations

In 2011, the Management Board of the Dalmor S.A Group took action to liquidate the fishing business and the company DKP Dalmor Sp. z o.o. The liquidation process of DKP Dalmor Sp. z o.o began on 5 October 2011. As at the date of these consolidated financial statements DKP Dalmor Sp z o.o and Dalmor Fishing Limited is in liquidation and did not conduct any operating activities.

4.12 Equity

Share capital is the capital contributed by the shareholders and it is stated at the nominal value.

Reserve capital comprises:

- ✓ the difference between the fair value of the payment received and the nominal value of the shares;
- ✓ capital created and used in accordance with the Commercial Companies Code Act.

Revaluation reserve comprises:

- ✓ excess of the carrying amount above the fair value of investment properties as at the date of their reclassification from non-current assets to investment properties;
- ✓ hedge accounting reserve.

Retained earnings comprise profits or losses for the current period and other capital items created and used in accordance with the provisions of the law.

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

Retentions for construction contracts (property development) comprise both invoiced and uninvoiced amounts.

Financial liabilities comprise loans and borrowings. Loans and borrowings in foreign currencies are stated at the average NBP rate prevailing for the given currency as at that date. Financial liabilities are measured at amortized cost in accordance with IAS 39.

4.14 Income tax

Income tax for the year comprises current and deferred tax. Income tax relating to items of the consolidated statement of comprehensive income is recognized in the consolidated statement of comprehensive income.

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.

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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 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 income tax asset is verified at each balance sheet date and is reduced to the extent to which it is no longer probable that sufficient taxable income will be achieved to enable partial or full utilization of the deferred tax asset. 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.

4.15 Employee benefits

Defined contribution plan

A defined contribution plan is a plan whereby the Group companies pay 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 for which they are eligible. The amount of the contributions made is recognized as employee related costs in the month in which they are calculated.

The companies belonging to the Group are required – based on binding legal regulations – to collect and transfer pension, disability pension and health insurance contributions on behalf of their 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 the benefit which an employee will receive in the future (e.g. after he retires) are estimated in advance (e.g. its amount, date of disbursement).

The Group is obliged to pay retirement benefits in the amount stipulated in the Labour Code. The Group recognizes the present value of its liability under the above obligation as current- or non-current employee benefits payable in the consolidated 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 a 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.

4.16 Provisions

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

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 Group's management.

4.17 Revenues

Revenues comprise revenue from sales of property, lease revenues, revenue from property development and revenue from other business. Revenues are recognized at the fair value of the amount received or receivable in respect of sales of goods and services in the course of the Group's everyday operations. Revenues are presented net of VAT, returns, rebates and discounts. The Group recognizes revenues when the amount of revenue may be reliably measured and when it is probable that it will earn economic benefits in the future, and when the criteria specified in IAS 18 have been met.

Revenue from lease is recognized on a straight-line basis over the period in which the service was provided.

Revenues from development activities are recorded when control over the acquired property and significant risks and benefits related to ownership are transferred to the buyer.

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According to the Group, this happens on signing the notarial deed.

Revenue from other operations is recognized in the period in which the services were provided. This comprises revenue from hotel operations and management services provided to co-subsidiaries.

4.18 Expenses

Costs of property maintenance comprise the costs related to the property's functioning, property maintenance and land. Costs or property maintenance are measured at the amount of direct costs and a justified part of indirect costs. Property maintenance costs comprise in particular:

- ✓ costs directly related to property maintenance (including energy, heating, water, cleaning and security);
- ✓ costs of current overhauls, maintenance and repairs;
- ✓ real property tax, property insurance costs, fees for the right to perpetual usufruct of land.

Costs related to properties but incurred by third parties, including tenants and insurers are not charged to property maintenance costs.

Costs of development activities are measured at the level of manufacturing costs using the method of strict identification of the actual costs of the assets sold or the percentage share, e.g.: of the land sold, shares sold, etc. In particular, the cost of sales of apartments and land sold is determined in proportion to their share in the entire land constituting a given project.

4.19 Dividend

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

4.20 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. The Group capitalizes the part of finance costs which are directly related to the acquisition or development of assets recognized under inventories or open investment projects. General and specific costs relating to the funds borrowed for the purpose of acquisition or development of the qualifying assets that require a long period of preparation to be ready for planned use or disposal increase the cost of development of such assets over the time of their preparation for planned use or disposal. Revenues from temporary investments covered by special loans to be issued for the qualifying assets reduce the amount of borrowing costs that fulfil the criteria for capitalization. All other borrowing costs are recognized in the consolidated statement of comprehensive income for the period in which they were incurred.

4.21 Consolidation methods

All the subsidiaries belonging to the Group are consolidated under the acquisition accounting method, whereas shares in co-subsidiaries are shown under the equity accounting method in the consolidated financial statements.

The Group accounts for business combinations under the purchase method. Payment made for the acquisition of a subsidiary represents the fair value of transferred assets, liabilities incurred in respect of the former owners of the company being acquired and equity shares offered by the Group. The transferred consideration covers the fair value of the asset or liability resulting from the contingent consideration. Identifiable assets and liabilities, and contingent liabilities acquired under the business combination are initially measured at fair value as at the acquisition date. For each acquisition the Group recognizes non-controlling interests in the acquired entity at fair value or in proportion to their share in the identifiable net assets of the acquired entity. It has been the policy of the Group that the transactions under joint control are accounted for under the pooling of interests method.

5. Financial risk management

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including: foreign exchange risk, fair value risk or cash flow risk following from changes in interest rates and price risk), credit risk and liquidity risk.

The Group's overall risk management policy concentrates on the unpredictability of financial markets and trying to mitigate the impact of any unfavourable trends on the Group's financial results.

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

5.1.1 Market risk

- ✓ **Foreign currency risk** - Foreign currency risk arises when future trading transactions or recognized assets and liabilities are denominated in currencies other than the functional currency of the Group. At the reporting dates, the Group companies had foreign currency lease agreements that were denominated mainly in EUR and USD. Additionally, a loan agreement concluded by the Group is denominated in EUR.

  The Group regularly monitors foreign currency risk and takes appropriate steps to mitigate the unfavourable effect of fluctuations in interest rates. These comprise, among others, forecasting future cash flows denominated in foreign currencies in the period of the next 12 months.

  The table below shows the impact of the change in the EUR/PLN exchange rate on the result before tax:

	31 December 2015		31 December 2014	
	+1 p.p.	-1p.p.	+1p.p.	-1p.p.
Debt	(2.3)	2.3	(0.1)	0.1
Total	**(2.3)**	**2.3**	(0.1)	0.1

The impact of changes in foreign exchange rates on other financial statement items is immaterial.

- ✓ **Price risk** – The Group is not exposed to the risk of changes in the value of financial assets due to insignificant investments in assets exposed to price changes. The price risk is therefore immaterial. The Group does not participate in trading in securities in any active market.
- ✓ **Interest rate risk –** The interest rate risk the Group is exposed to changes in market interest rates. The Group has interest-bearing financial liabilities in respect of a bank loan. The loan bears an interest rate based on 1M EURIBOR in respect of amounts denominated in EUR or 1M WIBOR in respect of amounts denominated in PLN. Other financial liabilities which bear interest rates based on market rates are immaterial.

  The Group did not hedge against fluctuations in interest rates. The Management Board monitors fluctuations in interest rates on an ongoing basis and takes appropriate steps.

  The table below shows the sensitivity of the financial result before tax on 1 percentage point changes in interest rates:

	31 December 2015		31 December 2014	
	+1 p.p.	-1 p.p.	+1 p.p.	-1 p.p.
1M EURIBOR	0.0	0.8	0.0	0.1
1M WIBOR	(0.1)	0.1	(0.1)	0.1
Total	**(0.1)**	**0.9**	**(0.1)**	**0.2**

5.1.2 Credit risk

Credit risk arises in respect of cash and cash equivalents, bonds and participation units, deposits with banks and financial institutions, as well as in respect of unsettled receivables from the Group's customers and lessees (insolvency risk). The Group has appropriate procedures to assess the creditworthiness of its customers and lessees. In the case of lessees, security/ collateral is required in the form of deposits (retentions) and guarantees. No significant risk concentration was recorded for any of the Group's customers. In respect of financial institutions and banks the Group uses services of renowned entities.

With respect to the Group, credit risk in this area is related mainly to the counterparties' contractual default.

As part of its credit risk management policy the Group mainly analyses the creditworthiness of its counterparties and financial institutions whose services it uses and develops optimal risk-related contractual terms. In addition, models of potential financial hedges are also being developed and payment terms depending on the creditworthiness of the counterparties are determined individually. A comprehensive debt recovery system has also been in operation.

5.1.3 Liquidity risk

Liquidity risk is the risk that the Group will be unable to settle its financial liabilities when they become due. The Group manages liquidity risk by maintaining appropriate equity, using offers of bank services and reserve credit facilities and by monitoring on an ongoing basis forecast and actual cash flows. Due to the dynamic nature of its business activities, the Group maintains flexibility of financing by securing the availability of cash and various sources of finance.

The Group has sufficient cash to pay all its liabilities in a timely manner. Liquidity risk may be minimized in a longer time horizon through the availability of bank loans.

Prudent management of liquidity risk stipulates, among other things, maintaining an appropriate level of cash and an appropriate structure of current assets and liabilities. As at 31 December 2014, the Group had a loan of PLN 14.3 million. The Group did not use overdraft facilities because it was capable of financing its operations with equity. The liquidity risk may be described as insignificant.

The Group 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:

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	31 December 2015	31 December 2014
Liquidity ratio	1.7	1.6

The cash liquidity ratio calculated as the ratio of cash and cash equivalents to current liabilities as at the balance sheet date was as follows:

	31 December 2015	31 December 2014
Cash liquidity ratio	0.7	0.7

5.1.4 Hedge accounting

Derivatives designated as hedging instruments, whose cashflows are expected to offset changes in cashflows from the hedged item are recognized in accordance with hedge accounting principles, provided that the hedged item and the hedging instrument are characterized by the same conditions.

As part of financial risk management, the Group identifies a risk of impairment of the fair value of both purchased and newly built commercial properties that generate revenues denominated in EUR due to changes in the EUR/PLN exchange rate. In order to mitigate such risk, whenever the Group uses external financing (loans) for a given property, it tries to match the loan currency with the currency of the revenues generated by the property. Due to the fact that the Group took out loans in EUR for financing properties that generate revenues denominated in EUR, a hedging relationship (fair value hedge) was established as part of hedge accounting between these properties (hedged items) and loans (hedging items). Consequently, the effect of changes in EUR/PLN exchange rates on the value of the loans is recognized in the consolidated statement of comprehensive income under “Changes in the fair value of investment properties”.

Moreover, the Group has found out that future cash flows in respect of interest on variable interest loans received are exposed to changes due to a risk of changes in interest rates. In order to mitigate such risk, the Group enters into interest rate swap (IRS) contracts with banks which effectively replace variable interest rates with fixed interest rates. For better presentation of the results of its current operations, the Group establishes a hedge relationship (cash flow hedge) between the loan (hedged item) and IRS (hedging item) as part of hedge accounting, provided that the hedged item and the hedging instrument are characterized by the same conditions. In consequence, the effect of changes in IRS value resulting from fair value measurement is recognized in the revaluation reserve.

5.2 Capital risk management

As far as capital risk management is concerned, the aim of the Group is to maintain the Group’s ability to continue in operation in such a manner that the return for shareholders and benefits for other stakeholders could be realized, while at the same time the cost of capital is maintained at the optimum level.

In order to manage such risk, the Group makes decisions concerning the level of financial leverage, dividend policy, issue of new shares or purchase and subsequent redemption or resale of previously issued shares, or potential sale of assets in order to reduce debt. Like other companies in the sector, the Group monitors its capital using, among other things, liability ratios. The debt ratio is calculated as net debt to total capital. Net debt is calculated as the sum of non-current and current liabilities less cash and cash equivalents. Total capital is calculated as the sum of equity recognized in the consolidated statement of financial position and net debt.

The financing structure ratio as at 31 December 2015 and 31 December 2014 was as follows:

	31 December 2015	31 December 2014
Current and non-current debt	313.0	15.3
Cash and cash equivalents	(126.5)	(136.4)
Net debt	**186.5**	**(121.1)**
Equity	1 982.7	2 000.7
Total capital	2 169.2	1 879.6
Financing structure ratio	**8.6%**	**(6.4%)**

5.3 Judgements and estimates

The preparation of the consolidated financial statements requires the Management Board to apply professional judgement, estimates and assumptions. The Group makes estimates on the basis of assumptions concerning future events, which may differ from the actual results. The estimates and assumptions that carry a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year are discussed below.

Estimation of the fair value of investment properties

The fair value of investment properties is estimated by certified independent property appraisers and it reflects the market conditions as at the date of preparation of the financial statements. Detailed assumptions used for the purposes of estimating the fair value of properties are presented in Note 8.

Assessment of the legal status of properties

Some of the properties owned by the Group have an unclear legal status, which is verified periodically. The Group evaluates the probability of losing properties on the basis of analyses of their legal status. If there are any indications that the legal status of a property may be clarified (its loss becomes unlikely), the Group recognizes such property in its assets.

Claims in respect of benefits derived from leased properties

The Group records provisions for claims in respect of benefits from leased properties, which it possesses in bad faith. The Group is of the opinion that in the case of all properties held without a legal title, possession in bad faith occurs from the moment of refusal to acquire the property in accordance with the law (under Art. 200 of the Property Management Act) or issue of the final decision revoking the legal title to a previously acquired property. The Group records a provision for claims for benefits with respect to such properties in the amount of benefits that could be obtained from a given property.

Inventory write-downs

Write-downs in respect of inventories related to property development held by the Group as at the balance sheet date are estimated based on an analysis of information from an active market concerning the expected selling prices and current market trends, as well as information resulting from preliminary sale agreements concluded by the Group. Estimates used for the purposes of calculating write-downs concern mainly market prices of properties in a given market segment. In the case of land disclosed in inventories, the amount of write-downs results from measurement at the recoverable value.

Deferred income tax

The Management Board is obliged to assess the probability of the crystallization of deferred tax assets. As part of the preparation of the consolidated financial statements, the Group estimates the amount of deferred tax assets and provisions based on, among other things, the amount of future income tax liabilities. The process comprises the analysis of current income tax liabilities and the amount of temporary differences resulting from a different treatment of transactions for tax and accounting purposes, as a result of which deferred tax assets and provisions arise.

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 Group's operations, as well as the dates of crystallization of the individual temporary differences. Since such estimates may change due to external factors, the Group may from time to time adjust the amount of deferred income tax assets, which in turn may affect its financial position.

Assets resulting from tax losses are only recognized if an analysis performed by the Management Board indicates that they can be settled.

6. Seasonality of operations

The Group's activities are not characterized by seasonality. Therefore, the financial results presented by the Group do not fluctuate significantly during the year.

7. Segment reporting

For management reporting purposes, the Group has been divided into the following operating segments:

- ✓ lease of office, retail, warehouse and logistics space, residential and other properties;
- ✓ property development – construction and sale of residential premises;
- ✓ other activities.

The activities conducted as part of the operating segments listed above are performed in Poland. Other activities comprise, in particular, income and costs relating to operations which are being discontinued by the Group: the ports business and the hotel business and management services.

The Management Board monitors the Group's results and makes decisions on the allocation of its resources based on an analysis of the operating activities of the segments listed above. The Management Board analyses segment results down to the level of the operating profit or loss. The Group does not allocate to segments any assets, liabilities, revenues or costs of the parent company acting as a financial holding.

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Segmental analysis as at and for the year ended 31 December 2015

	Lease	Property development	Discontinued operations	Other activities	Unallocated	Total
Sales revenue	127.4	26.6		5.7		**159.7**
Operating expenses	(67.3)	(17.9)		(4.2)		**(89.4)**
Gross profit/(loss) on sales	**60.1**	**8.7**		**1.5**		**70.3**
Administrative and selling expenses	(28.8)	(4.1)	(0.2)		(5.5)	**(38.6)**
Change in the fair value of investment properties	(90.6)					**(90.6)**
Gain on disposal of investment properties	6.8					**6.8**
Other revenues	54.3	0.2	0.4		0.0	**54.9**
Other costs	(13.5)	(0.0)		(0.4)	(0.8)	**(14.7)**
Operating profit/ (loss)	**(11.7)**	**4.8**	**0.2**	**1.1**	**(6.3)**	**(11.9)**
Finance income					2.7	**2.7**
Finance costs					(13.4)	**(13.4)**
Share in profits of associates and jointly controlled entities					0.6	**0.6**
Corporate income tax					72.8	**72.8**
Segment profit (loss)	**(11.7)**	**4.8**	**0.2**	**1.1**	**56.4**	**50.8**
Segment assets	2 394.4	76.2	0.1	30.7	12.6	**2 514.0**
Segment liabilities	497.6	25.2	0.6	1.3	6.6	**531.3**
Capital expenditure	113.0					**113.0**
Depreciation and amortization	1.2			0.2		**1.4**

Other revenues include mainly: in the lease segment – reassessment of the legal status of properties of PLN 25.1 million; refundable civil law transactions tax on contributions in kind made in previous years to a partnership limited by shares of PLN 8.0 million; reversal of a part of a provision for using a property without a contract of PLN 4.7 million; reversal of a part of the provisions for claims for benefits from leased properties of PLN 9.7 million; reversal of receivables write-downs of PLN 5.3 million.

Other costs include mainly: in the lease segment – receivable write-downs of PLN 7.4 million; goodwill write-down of PLN 4.0 million; impairment write-down in respect of properties recognized in property, plant and equipment of PLN 1.0 million; costs relating to a change in the VAT deducting structure of PLN 0.4 million; severance pay for dismissed employees of PLN 0.2 million.

Segmental analysis as at and for the year ended 31 December 2014

	Lease	Property development	Discontinued operations	Other activities	Unallocated	TOTAL
Sales revenue	120.8	45.4		0.3		166.5
Operating expenses	(65.3)	(34.2)				(100.1)
Gross profit/(loss) on sales	**55.5**	**11.2**				**66.4**
Administrative expenses	(28.1)	(3.5)	(0.2)		(6.9)	(38.7)
Change in the fair value of investment properties	(39.9)					(39.9)
Gain on disposal of investment properties	0.4					0.4
Other revenues	44.9	0.2			0.0	45.1
Other costs	(20.8)	(0.2)				(21.0)
Operating profit/ (loss)	**12.0**	**7.7**	**(0.2)**		**(6.9)**	**12.3**
Finance income					3.1	3.1
Finance costs					(2.6)	(2.6)
Share in profits of associates and jointly controlled entities					0.7	0.7
Corporate income tax					94.3	94.3
Segment profit (loss)		**7.7**	**(0.2)**		**88.6**	**107.8**
Segment assets	2 216.8	60.7	0.1	4.2	1.6	2 283.4
Segment liabilities	244.6	36.7	0.6	0.5	0.3	282.7
Capital expenditure	60.3					60.3
Depreciation and amortization	1.1	0.1			0.1	1.3

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Other revenues include mainly: in the lease segment – release of a part of the provision for claims for benefits from leased properties of PLN 27.2 million; change in the legal status of properties of PLN 12.8 million, release of the provision for State Budget claims of PLN 1.3 million; reversal of receivable write-downs of PLN 1.6 million; damages received of PLN 0.2 million; a gain on disposal of non-financial non-current assets of PLN 0.2 million.

Other costs include mainly: in the lease segment – change in the assessment of the legal status of properties in the amount of PLN 6.9 million; a provision for claims in respect of benefits derived from leased properties of PLN 3.0 million; receivables write-downs of PLN 8.1 million; severance pay for dismissed employees of PLN 0.9 million; damages and penalties paid of PLN 0.8 million; a provision for a tenant's claims relating to prior years of PLN 0.6 million.

8. Investment properties

Investments properties are presented in these consolidated financial statements at the fair value determined as at 31 December 2015 by an independent property advisor, the company CBRE Sp. z o.o. in Warsaw. The valuation covered the whole property portfolio of the Group.

Estimation of the fair value of investment properties

The prices of similar assets on an active market are the best indication of fair value. If such information is not available, the Group determines an amount from the range of reasonable estimates of the fair value. In making its judgement, the Management Board takes into account varied information, including:

- ✓ current prices on an active market for properties of a similar nature, condition and location (or sold under another agreement or contract),adjusted to reflect the differences between the properties;
- ✓ recent prices of similar properties on less active markets, adjusted to reflect the changes in economic conditions that occurred from the time of concluding a transaction at a given price;
- ✓ discounted cash flow projections based on reliable assumptions concerning future cash flows, derived from the terms and conditions of the existing lease contracts and other contracts (if possible) or from external sources such as current market rents for similar properties in the same location and condition, calculated with the use of discount rates that reflect the current assessment of uncertainty as to the amount and timing of cash flows.

The following measurement methodology was used to determine the fair value of properties, depending on the type of property:

- ✓ Income Approach, Investment Method, Simple Capitalization Technique (DCF analysis was performed for selected properties as a method of verification);
- ✓ Comparative Approach, Pair Comparison Method;
- ✓ Comparative Approach, Average Price Adjustment Method;
- ✓ Mixed Approach, Residual Method.

The following assumptions were adopted to determine the fair value of properties:

Main assumptions adopted for property valuation by type of property in the portfolio:	31 December 2015	31 December 2014
Capitalization rate (%)		
Office	6.00 – 11.00	5.75 – 11.00
Retail	7.00 – 9.00	7.00 – 9.00
Residential and other	6.00 – 12.00	6.00 – 12.00
Vacancy ratio (%)		
Office	1.00 – 15.00	5.00 – 15.00
Retail	1.00 – 10.00	2.00 – 10.00
Residential and other	1.00 – 10.00	1.00 – 10.00
ERV – estimated rental value (PLN)		
Office	31 – 72	35 – 77
Retail	40 – 115	51 – 120
Residential and other	35 – 50	35 – 50

In accordance with IFRS 13, the Management Board of the Group analysed the estimated fair value of investment properties and found that as at 31 December 2015 and 31 December 2014 it was determined based on the 3rd level of fair value hierarchy. Due to the nature of the properties, a relatively small number of similar current transactions were found that could be used to estimate the fair value. As a result, many special assumptions were adopted with respect to the observed current market transactions, which had a significant effect on determining the fair value. Due to the absence or a limited number of similar transactions, the Management Board is of the opinion that the fair value measurement cannot be treated as performed on the basis of the 2nd level of fair value hierarchy. A change in the fair value of properties determined based on the 3rd level in the fair value hierarchy was recognized in the net profit (loss).

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	Year ended	
	31 December 2015	31 December 2014
As at 1 January	**1 924.1**	**1 927.9**
Purchase of investment property	196.3	0.0
Expenditure on investment properties	113.0	63.0
Settlement of space arrangement costs	(2.8)	(2.7)
Change in the fair value of investment properties	(86.8)	(39.9)
Value of investment properties sold	(23.2)	(19.0)
Reclassification from property, plant and equipment	0.0	3.8
Reclassification to property, plant and equipment	(26.0)	(2.9)
Reclassification to inventories	(46.5)	0.0
Reclassification from/to assets with unclear legal status	25.1	5.9
Reclassification to non-current assets classified as held for sale	(57.8)	(12.0)
As at the end of the period	**2 015.4**	**1 924.1**

The following amounts were recognized in the statement of comprehensive income:

	Year ended	
	31 December 2015	31 December 2014
Rental income from investment properties	127.4	120.8
Direct operating expenses incurred on rent-generating investment properties	(67.3)	(65.3)
Change in the fair value of investment properties	(86.8)	(39.9)
Gain on disposal of investment properties	6.8	0.4
Sales of investment properties	*42.0*	*36.8*
Cost of properties sold (classified as investment properties or assets held for sale)	*(35.2)*	*(36.4)*
Gain (loss) on investment properties	**(19.9)**	**16.0**

Changes in the classification of the legal status of properties

In the year ended 31 December 2015, the Group received a decision of the Mazowiecki Voivode confirming acquisition of the right to perpetual usufruct of the property at ul. Kryniczna 2 in Warsaw. Consequently, the Group recognized that property in assets. The effect of the reclassification (change in the legal status) was recognized in the consolidated statement of comprehensive income under Other revenues (PLN 5.1 million).

Moreover, in the current financial year the Constitutional Tribunal passed a judgement stating that decisions granting ownership rights to properties which had been issued with flagrant violation of the law cannot be repealed, if a significant amount of time has passed since such a decision was issued. Consequently, the Group analysed the legal status of properties which had not yet been disclosed in the statement of financial position due to the fact that the decisions granting ownership rights could have been issued in violation of the law. In the case of three properties with a total fair value of PLN 20.0 million (established based on the specific assumption that their legal status would be clarified), it was concluded that there were sufficient grounds for recognizing them as the Group assets, and in the case of two properties with a fair value of PLN 10.5 million (established based on the specific assumption that their legal status would be clarified), it was concluded that their legal status required further analyses, especially taking into account the body of decisions to be issued after the judgement of the Constitutional Tribunal.

As a result, the Group reclassified three properties to the unclear legal status category with a favourable outlook for clearing their legal status, and recognized them as assets in the consolidated statement of financial position in the amount of PLN 20.0 million The Group recognized reclassification in the consolidated statement of comprehensive income under "Other revenue".

Purchase of properties

In the first half of 2015, the Group acquired a part of a property at Al. Jana Pawła II 12 in Warsaw (Kaskada) and became the sole owner of the property.

In Q3 2015, the Group acquired 100% of the shares in Andersia Business Centre Sp. z o.o. with its registered office in Poznań, a company which owns an A class office building with retail space, Andersia Business Centre, located in the heart of the business district in Poznań.

Expenditure on real estate

Expenditure on investment properties comprises:

- ✓ expenditure on the construction of commercial development projects (Domaniewska 37C, Foksal 10A,

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Retkinia, Rakowiecka 19) in the amount of: 2015: PLN 90.1 million; 2014: PLN 53.8 million;

- ✓ expenditure on the preparation of commercial development projects amounting to: 2015: PLN 5.2 million; 2014: PLN 2.9 million;
- ✓ modernization and arrangement of properties amounting to: 2015: PLN 17.7 million; 2014: PLN 3.6 million.

Reclassification to non-current assets classified as held for sale

Reclassification to assets held for sale, in accordance with IFRS 5, was performed due to the fact that buyers were found for a number of properties (for details, see Note 17).

Unclear legal status of properties

Some properties owned by the Group have an unclear legal status with a negative outlook for its clarification. Unclear legal status of properties results from claims brought with respect to some properties. In the opinion of the Management Board, most of these claims are groundless. Such properties are not recognized in the financial statements. Their fair values determined based on the assumption that their legal status has been clarified are presented below as at the respective balance sheet dates:

	Year ended	
	31 December 2015	31 December 2014
Property value	115.1	146.2

Hedging against the risk of changes in the fair value

The Group hedges against the risk of changes in the fair value of properties that generate lease revenues denominated in EUR, in the part resulting from the foreign exchange risk, up to the amount of external financing (loan) for a given property denominated in the same currency in which the revenues are generated. As part of hedge accounting, the Group establishes a relationship (fair value hedge) between a property (the hedged item) and the loan financing that property (the hedging item). The effects of changes in the fair value of the property and in the value of the loans (recognized at amortized cost) are offset and recognized in the consolidated statement of comprehensive income under "Change in the fair value of investment properties".

Contracted revenues

The Group has concluded a number of operating lease contracts with tenants for the investment properties. A significant part of the lease contracts have been signed for an unspecified period with a short notice period. The Group is changing its strategy with respect to the period for which lease contracts are concluded. Moreover, the Group is in the process of disposal of properties which do not fit in its target portfolio. Some of them are currently leased, and future revenues from lease contracts depend on the time needed for their disposal. Due to the change in the Group's structure and adoption of the model of signing lease contracts for a specified period, in order to determine the aggregate amount of future revenues from non-cancellable lease contracts, the Group must adopt significant estimates concerning the time needed to dispose of the properties and replace contracts signed for an unspecified period with contracts for a specified period. In view of the above, the future revenues from non-cancellable lease contracts (rents) amount to:

Future revenues from rents from the balance sheet date	31 December 2015	31 December 2014
within 12 months	78.7	25.3
from 1 to 5 years	164.8	90.5
from 5 to 10 years	45.6	16.9
Total future revenues	**289.1**	**132.7**

9. Property, plant and equipment

	Year ended	
	31 December 2015	31 December 2014
As at 1 January	**22.5**	**24.6**
Purchase	0.3	0.1
Depreciation	(1.4)	(1.1)
Impairment	(1.4)	0.0
Disposal	(0.2)	(0.2)
Reclassification from/to investment properties	26.0	(0.9)
As at the end of the period	**45.8**	**22.5**

Due to the commencement of hotel activities, the properties Zgoda 6 and Hotel Wilanów were reclassified to property, plant and equipment in the year ended 31 December 2015: PLN 26.0 million. Reclassification from property, plant and equipment to investment properties in the year ended 31 December 2014 was associated with a reduction and change of space used by the Group for its own purposes.

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The carrying amount of real estate included in property, plant and equipment as at 31 December 2015 amounted to: PLN 44.8 million; as at 31 December 2014: PLN 19.8 million.

10. Intangible assets

The Group did not acquire any intangible assets in the years ended 31 December 2015 and 31 December 2014. Amortization charged in the year ended 31 December 2015 amounted to: PLN 0.0 million; 31 December 2014: PLN 0.2 million.

11. Investments in associates and jointly controlled entities

Warszawski Holding Nieruchomości S.A. and SEGRO B.V. hold 50% of shares each in a special purpose vehicle, Wrocław Industrial Park Sp. z o.o.

In 2015, Dalmor S.A. and mLocum S.A. established a company, Apartamenty Molo Rybackie Sp. z o.o., in order to carry out a joint project called Molo Rybackie in Gdynia. The companies each hold a 50% interest in Apartamenty Molo Rybackie Sp. z o.o.

In 2015, Polski Holding Nieruchomości S.A. and PHN SPV 4 Sp. z o.o. concluded a joint venture agreement with Parzniew Partners B.V. to carry out a joint project consisting in constructing a warehouse park in the Brwinów municipality. The project will be carried out by Parzniew Logistics Center Infrastructure Sp. z o.o. and Parzniew Logistics Center 1 Sp. z o.o. Polski Holding Nieruchomości S.A. and Parzniew Partners B.V. each hold a 50% interest in Parzniew Logistics Center Infrastructure Sp. z o.o. and Parzniew Logistics Center 1 Sp. z o.o.

The Group accounts for the interests held using the equity method.

	Year ended	
	31 December 2015	31 December 2014
As at 1 January	**18.6**	**18.5**
Purchase	7.5	0.0
Share in profits	0.6	0.7
Payment of dividend	(0.5)	(0.6)
As at the end of the period	**26.2**	**18.6**

Jointly controlled entities are not listed on an active market. Their financial data as at and for the year ended 31 December 2015 is as follows:

	Assets	Equity	Liabilities	Revenues	Profit	The Group's share in profit
Wrocław Industrial Park	39.0	38.3	0.7	1.5	1.2	0.7
Apartamenty Molo Rybackie	14.8	14.7	0.1	0.0	(0.3)	(0.1)
Parzniew Logistics Center Infrastructure	3.8	(0.1)	3.9	0.0	(0.0)	(0.0)
Parzniew Logistics Center 1	2.1	(0.0)	2.1	0.0	(0.1)	(0.0)
Total	**59.7**	**52.9**	**6.8**	**1.5**	**0.8**	**0.6**

12. Non-current financial assets

Non-current financial assets of the Group as at 31 December 2015 include loans granted to jointly controlled entities in the amount of PLN 2.8 million.

As at 31 December 2014, the Group did not recognize any loans granted to jointly controlled entities.

13. Other non-current assets

Other non-current assets include mainly uninvoiced receivables resulting from deferred income (grace period granted to tenants with regard to payment of rent).

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14. Inventories related to property development

Structure of inventories	31 December 2015	31 December 2014
Land	50.1	4.2
Work in progress	0.8	0.0
Finished goods	11.3	31.6
Total inventories related to property development	**62.2**	**35.8**

Changes in inventories during the financial year	Year ended	
	31 December 2015	31 December 2014
As at 1 January	**35.8**	**65.4**
Expenditure on construction	0.8	4.6
Disposal of premises	(20.9)	(24.7)
Disposal of undeveloped land	0.0	(10.8)
Impairment write-downs	0.0	1.3
Reclassification from investment properties	46.5	0.0
As at the end of the period	**62.2**	**35.8**

The item “land” includes all land associated with residential property development.

15. Structure of receivables and other assets

Structure of receivables	31 December 2015			31 December 2014		
	Total	Financial	Non-financial	Total	Financial	Non-financial
Trade receivables and other assets	121.4	12.4	109.0	119.1	11.2	107.9
Trade receivables	9.0	9.0	0.0	10.2	10.2	0.0
Receivables from the State Budget	100.6	0.0	100.6	102.5	0.0	102.5
VAT on purchase of properties within the Group	*97.6*	*0.0*	*97.6*	*99.0*	*0.0*	*99.0*
Other receivables from the State Budget	*3.0*	*0.0*	*3.0*	*3.5*	*0.0*	*3.5*
Prepayments	8.4	0.0	8.4	5.4	0.0	5.4
Other receivables	3.4	3.4	0.0	1.0	1.0	0.0
Income tax receivables	2.3	0.0	2.3	1.2	0.0	1.2
Total receivables and other assets	**123.7**	**12.4**	**111.3**	**120.3**	**11.2**	**109.1**

Currency structure of trade receivables and other assets	31 December 2015	31 December 2014
PLN	121.2	119.1
EUR	0.2	0.0
Total trade receivables and other assets	**121.4**	**119.1**

Ageing analysis of trade receivables	31 December 2015	31 December 2014
Receivables not yet overdue	4.7	3.6
Receivables overdue by 1 to 30 days	2.8	4.0
Receivables overdue by 31 to 60 days	0.5	1.1
Receivables overdue by 61 to 90 days	0.3	0.9
Receivables more than 90 days overdue	0.7	0.6
Total trade receivables	**9.0**	**10.2**

	31 December 2015	31 December 2014
Trade receivables	30.3	37.4
Impairment write-downs in respect of trade receivables	(21.3)	(27.2)
Trade receivables, net	**9.0**	**10.2**

Change in impairment write-downs for trade receivables	31 December 2014	31 December 2014
As at 1 January	**27.2**	**20.7**
Write-downs recorded	7.4	8.1
Write-downs reversed	(5.3)	(1.6)
Write-downs utilized	(8.0)	0.0
As at the end of the period	**21.3**	**27.2**

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

16. Cash and cash equivalents and explanations to the consolidated statement of cash flows

Analysis of cash and cash equivalents	31 December 2015	31 December 2014
Cash in hand and at bank	18.2	1.7
Current bank deposits	108.3	134.7
As at the end of the period	**126.5**	**136.4**

Explanation of selected adjustments to cash flows from operating activities in the statement of cash flows and reconciliation of differences between the balance sheet changes and the changes in the statement of cash flows

Change in the value of other assets and gain/(loss) on disposal	Year ended	
	31 December 2015	31 December 2014
Impairment of property, plant and equipment (real estate)	1.4	0.0
Reclassification from assets with unclear legal status	(25.1)	(5.9)
Amortization of goodwill	4.0	0.0
Gain/(loss) on disposal of other non-current assets	(0.1)	(0.2)
Total	**(19.8)**	**(6.1)**

Changes in working capital in the statement of cash flows	Year ended	
	31 December 2015	31 December 2014
Change in inventories	20.1	29.6
Change in receivables	(2.7)	64.7
Change in other assets	(4.9)	(0.5)
Change in liabilities	(3.5)	(91.4)
Change in provisions	(8.6)	(24.5)
Total	**0.4**	**(22.1)**

Reasons behind the differences between balance sheet changes in certain items and the changes resulting from the statement of cash flows

Receivables	Year ended	
	31 December 2015	31 December 2014
Change in receivables in the statement of financial position	(2.3)	63.1
Acquisition of receivables	2.0	0.0
Change in investment receivables	(2.4)	1.6
Change in receivables in the statement of cash flows	**(2.7)**	**64.7**

Liabilities	Year ended	
	31 December 2015	31 December 2014
Change in liabilities in the statement of financial position	(6.0)	(78.5)
Acquisition of liabilities	(6.3)	0.0
Change in investment liabilities	8.8	(12.9)
Change in liabilities in the statement of cash flows	**(3.5)**	**(91.4)**

Provisions	Year ended	
	31 December 2015	31 December 2014
Change in provisions in the statement of financial position	(8.1)	0.0
Acquisition of provisions	(0.5)	0.0
Change in inventories in the statement of cash flows	**(8.6)**	**0.0**

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17. Non-current assets classified as held for trading

	Year ended	
	31 December 2015	31 December 2014
As at 1 January	**12.0**	**17.4**
Reclassification from investment properties	57.8	12.0
Disposal	(12.0)	(17.4)
As at the end of the period	**57.8**	**12.0**

Reclassification to assets classified as held for sale in the year ended 31 December 2015 was due to the fact that buyers were found for a number of properties: Filtrowa 47, Humańska 10, Hotel Pruszków, Hotel Świebodzin, Konstancińska 13, Łężyca, Racławicka 126, Prądzyńskiego 21,Wiejska 20, Willowa 7, Zawrat 4.

18. Analysis of liabilities

Analysis of liabilities	31 December 2015			31 December 2014		
	Total	Financial	Non-financial	Total	Financial	Non-financial
Current liabilities						
Debt	8.1	8.1	0.0	0.3	0.3	0.0
Bank loans	7.6	7.6	0.0	0.0	0.0	0.0
Car fleet leases	0.5	0.5	0.0	0.3	0.3	0.0
Trade and other payables	128.9	37.4	91.5	135.1	39.6	95.5
Trade payables	10.8	10.8	0.0	10.3	10.3	0.0
Capital expenditure commitments	6.5	6.5	0.0	12.5	12.5	0.0
Tenants' deposits	9.8	9.8	0.0	9.0	9.0	0.0
Payables to the State Budget	88.7	0.0	88.7	88.9	0.0	88.9
VAT on disposal of properties within the Group	*84.8*	*0.0*	*84.8*	*86.8*	*0.0*	*86.8*
Other payables to the State Budget	*3.9*	*0.0*	*3.9*	*2.1*	*0.0*	*2.1*
Prepayments for purchase of properties	2.8	0.0	2.8	6.6	0.0	6.6
Deposits of construction work subcontractors	3.1	3.1	0.0	6.3	6.3	0.0
Valuation of derivative financial instruments	0.6	0.6	0.0			
Other current liabilities	6.7	6.7	0.0	1.5	1.5	0.0
Income tax liabilities	0.2	0.0	0.2	0.3	0.0	0.3
Prepayments related to property development	2.2	0.0	2.2	2.7	0.0	2.7
Total current liabilities	**139.4**	**45.5**	**93.9**	**138.4**	**39.9**	**98.5**
Non-current liabilities						
Debt	304.9	304.9	0.0	15.0	15.0	0.0
Bank loans	304.8	304.8	0.0	14.3	14.3	0.0
Car fleet leases	0.1	0.1	0.0	0.7	0.7	0.0
Other	2.9	2.9	0.0	2.3	2.3	0.0
Tenants' deposits	0.8	0.8	0.0	1.5	1.5	0.0
Deposits of construction work subcontractors	0.1	0.1	0.0	0.8	0.8	0.0
Valuation of derivative financial instruments	2.0	2.0	0.0	0.0	0.0	0.0
Total non-current liabilities	**307.8**	**307.8**	**0.0**	**17.3**	**17.3**	**0.0**
Total liabilities	**447.4**	**353.5**	**93.9**	**155.7**	**57.2**	**98.5**

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19. Non-current and current debt

Debt by currency	31 December 2015	31 December 2014
Bank loans	**312.4**	**14.3**
EUR	230.3	9.0
PLN	82.1	5.3
Car fleet leases	**0.6**	**1.0**
PLN	0.6	1.0
Total debt	**313.0**	**15.3**

The Group's loans bear interest at variable rates. In order to mitigate the risk of changes in interest rates, the Group enters into interest rate swap (IRS) contracts with banks which effectively replace variable interest rates with fixed interest rates. These are WIBOR and EURIBOR rates plus a margin, depending on the currency of financing.

20. Prepayments related to property development

Prepayments related to property development comprise prepayments for premises.

21. Deferred income tax assets and liabilities

Deferred income tax liabilities

	Investment properties	Fixed assets	Inventories	Other assets	Provisions	Tax losses	Other liabilities	Total
1 January 2014	172.9	3.5	0.0	0.8	0.0	0.0	0.0	177.2
increases/decreases	(92.4)	(2.5)	0.0	(0.1)	0.0	0.0	0.0	(95.0)
31 December 2014	80.5	1.0	0.0	0.7	0.0	0.0	0.0	82.2
increases/decreases	(48.6)	(0.4)	0.0	6.2	0.0	0.0	0.0	(42.8)
31 December 2015	**31.9**	**0.6**	**0.0**	**6.9**	**0.0**	**0.0**	**0.0**	**39.4**

Deferred income tax assets

	Investment properties	Fixed assets	Inventories	Other assets	Provisions	Tax losses	Other liabilities	Total
1 January 2014	2.1	0.1	3.9	3.6	16.6	4.2	1.5	32.0
increases/decreases	6.9	(0.1)	(1.6)	1.6	(3.8)	4.1	0.4	7.5
31 December 2014	9.0	0.0	2.3	5.2	12.8	8.3	1.9	39.5
increases/decreases	12.4	0.1	0.6	(0.7)	(2.4)	11.1	5.9	27.0
31 December 2015	**21.4**	**0.1**	**2.9**	**4.5**	**10.4**	**19.4**	**7.8**	**66.5**

The decrease in deferred income tax provisions relating to investment properties of PLN 48.6 million is mainly due to the change in the Group structure of PLN 63.7 million (for details, see Note 33).

Deferred income tax assets and provisions are offset if there is an enforceable legal title to offset deferred income tax assets against deferred income tax provisions and if deferred income tax assets and provisions relate to taxes imposed by the same tax authorities on the same taxpayer.

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22. Provisions

	Claims in respect of benefits derived from leased properties and non-contractual use of properties	Guarantee repairs and compensations in property development	Severance payments	Employee benefits	Other	Total
As at 1 January 2014	**60.8**	**25.5**	**2.5**	**0.9**	**6.6**	**96.3**
Recorded	9.0	2.3	0.2	0.1	2.4	14.0
Utilized	(1.1)	0.0	(2.5)	(0.1)	(4.0)	(7.7)
Reversed	(27.2)	(2.1)	0.0	0.0	(1.5)	(30.8)
As at 31 December 2014	**41.5**	**25.7**	**0.2**	**0.9**	**3.5**	**71.8**
Recorded	5.9	1.3	0.5	0.0	7.6	15.3
Acquired	0.0	0.0	0.0	0.0	0.5	0.5
Utilized	(1.9)	(1.4)	(0.2)	(0.0)	(0.7)	(4.2)
Reclassified	0.0	0.0	0.0	0.0	0.0	0.0
Reversed	(14.4)	(4.3)	0.0	0.0	(1.0)	(19.7)
As at 31 December 2015	**31.1**	**21.3**	**0.5**	**0.9**	**9.9**	**63.7**
including:						
non-current:	15.5	0.0	0.0	0.9	0.0	16.4
current:	15.6	21.3	0.5	0.0	9.9	47.3

Claims in respect of benefits derived from leased properties and non-contractual use of properties

The Group records provisions for claims in respect of benefits derived from leased properties that the Group possesses in bad faith, i.e. the Group companies knew or could have learnt if they exercised due care and diligence that they did not have a certain right or that the person from whom they acquired a right was not in fact entitled to it.

The Group is of the opinion that in the case of all properties held without a legal title, possession in bad faith occurs from the moment of refusal to acquire the property in accordance with the law (under Art. 200 of the Property Management Act) or issue of the final decision revoking the legal title to a previously acquired property. The Group records a provision for claims for benefits with respect to such properties in the amount of benefits that could be obtained from a given property.

In accordance with the law, a claim for lost benefits can be filed by the holder of the legal title to a property not earlier than on the date of acquiring such title and not later than within one year from that date. The right to file a claim for lost benefits against the possessor in bad faith expires after 10 years.

Guarantee repairs and compensations in property development

The provision for guarantee repairs comprises the value of repairs or compensation relating to premises sold.

The provision for compensation comprises the value of potential compensation that may be charged to the Group in connection with late completion of premises in previous years.

Employee benefits

The provision for employee benefits comprises the present value of future long service bonuses and pension benefits payable in accordance with the payroll systems in place at the Group.

Other provisions

Other provisions include:

- ✓ potential interest expenses on VAT liabilities relating to the risk of an adverse decision being issued by the tax authorities of PLN 5.7 million.

  In 2014, as part of changes in the Group's structure, the companies Warszawski Holding Nieruchomości S.A. and Budexpo S.A. contributed properties in exchange for shares in a partnership limited by shares. Based on analyses performed and tax opinions received, the issue price of shares, which was higher than their nominal price, was adopted as the basis for VAT taxation. The company making the contribution in kind paid the tax, while the company which received the contribution and subsequently sold the properties offset input VAT (on the contribution in kind) against output VAT (on sale).

  In 2015, a tax authority conducted a tax audit in respect of VAT in the company which received contributions in kind. In the opinion of the tax authority, the nominal value of the shares taken up should be the basis for the taxation of the contribution in kind. Therefore, the tax authority challenged the right to deduct VAT on the excess of the issue price over the nominal price. In the Company's opinion, such an approach is not justified. The inspected company made objections to the post-audit report. By the date of preparing

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these financial statements, the tax authorities had not issued a decision in this respect.

Should the decision be unfavourable for the inspected company, the company will adjust its VAT return and will recognize a VAT liability of PLN 110.7 million with interest of PLN 5.7 million as at the balance sheet date. At the same time, in the company which made the contribution, an overpaid VAT receivable of PLN 110.7 million will arise.

- ✓ probable expenses in respect of increased fees for perpetual usufruct of land and disputed property tax liabilities of PLN 3.5 million.
- ✓ various claims of tenants and buyers of real estate of PLN 0.7 million.

23. Share capital

	31 December 2015	31 December 2014
Number of shares as at 1 January	46 482 044	44 599 947
Share issue	240 703	1 882 097
Number of shares as at 31 December (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 issues in 2015 and 2014 were based on:

- ✓ 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 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 shares issued in 2015 and 2014 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.

24. Supplementary capital

The supplementary capital consists of:
- ✓ Share premium of PLN 1,751.9 million;
- ✓ Appropriation of profit of PLN 60.6 million.

In 2015, PHN S.A. acquired shares in subsidiaries in exchange for treasury shares issued (for details, see Note 16). 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. The excess of purchase price over the par value of shares of PLN 1 per share was recognized as share premium in supplementary capital.

25. Revaluation reserve

The revaluation reserve consists of:

- ✓ The difference between the net book value and the fair value of investment properties as at the date of their reclassification from property, plant and equipment to investment properties of PLN 3.2 million;
- ✓ A decrease in the amount of capital resulting from hedge accounting of PLN 0.2 million.

26. Retained earnings

Retained earnings of PLN 150.7 million as at 31 December 2014 decreased to PLN 87.6 million as at 31 December 2015 due to:

- ✓ the net profit generated by the Group in 2015 of PLN 49.1 million;
- ✓ recognizing the excess of the book value of non-controlling interests over the value of PHN S.A. shares issued (recognized in the share capital and supplementary capital, respectively) of PLN 16.5 million;

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- ✓ repurchase of a part of shares in subsidiaries from non-controlling shareholders of PLN 7.9 million;
- ✓ earmarking PLN 60.7 million for the payment of dividend to shareholders and PLN 60.1 for transfer to supplementary capital.

27. Appropriation of the Parent 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.

28. 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.

29. Revenues from operating activities

Revenues from operating activities	Year ended	
	31 December 2015	31 December 2014
Lease revenues	127.4	120.8
Revenues from property development	26.6	45.4
Revenues from other activities	5.7	0.3
Hotel business	5.6	0.3
Management services	0.1	0.0
Total revenues from operating activities	**159.7**	**166.5**

Other revenues	Year ended	
	31 December 2015	31 December 2014
Gains on disposal of non-financial non-current assets	0.0	0.2
Reclassification from assets with unclear legal status	25.1	12.8
Compensations	0.1	0.2
Revaluation of receivables	5.3	1.6
Reversal of provision for claims in respect of benefits derived from leased properties	9.7	27.2
Reversal of provision for using properties without a contract	4.7	0.4
Reversal of other provisions	0.3	2.1
Refund of tax on civil law transactions	8.0	0.0
Change in the structure of VAT deductions	0.4	0.0
Other	0.9	0.6
Total other revenues	**54.5**	**45.1**

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30. Operating expenses

Operating expenses	Year ended	
	31 December 2015	31 December 2014
Property maintenance costs	67.3	65.3
Cost of property development	17.9	34.2
Costs of other activities	4.2	0.6
Hotel business	4.2	0.6
Total operating expenses	**89.4**	**100.1**

Other costs	Year ended	
	31 December 2015	31 December 2014
Amortization of goodwill	4.0	0.0
Impairment of property, plant and equipment (real estate)	1.4	0.0
Reclassification from assets due to change in the legal status	0.0	6.9
Revaluation of receivables	7.4	8.1
Provisions for claims in respect of benefits derived from leased properties	0.0	3.0
Tenants' claims relating to prior years	0.0	0.7
Change in the structure of VAT deductions	0.4	0.0
Compensations and penalties	0.3	0.8
Severance payments	0.7	1.0
Other	0.5	0.5
Total other costs	**14.7**	**21.0**

On 1 July 2015, the Group acquired 100% of shares in Andersia Business Centre Sp. z o.o. (after the change of its name to PHN SPV 33 Sp. z o.o.) with its registered office in Poznań, a company which owns an A class office building with service space, Andersia Business centre, located in the heart of the business district in Poznań. As a result of settlement of the purchase transaction, goodwill of PLN 4.0 million was recognized, representing a difference between the purchase price and the fair value of the acquired net assets. The amount of goodwill was confirmed by an increase in the net asset value of the acquired company resulting from the contribution of a property to the partnership limited by shares and its subsequent sale to a special purpose vehicle, leading to an increase in the tax value of the acquired property. Consequently, the Group reversed the deferred tax provision, which as at the acquisition date amounted to PLN 10.5 million, and recognized it in the consolidated statement of comprehensive income. As a result, goodwill was realized effectively, and therefore the Group will write it off.

Due to the negative impact of the situation on the real estate market on the Group's clients' ability to settle their liabilities, the Group recognized write-downs for its receivables of PLN 7.4 million in 2015 (2014: PLN 8.1 million).

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31. Costs by type

The Group, excluding property development	Year ended	
	31 December 2015	31 December 2014
Depreciation	1.4	1.2
Materials and energy used	13.4	13.6
External services	45.4	40.3
Taxes and fees	26.0	25.5
Wages and salaries, and other employee benefits	18.7	19.5
Other costs by type	0.9	0.8
Total operating expenses	**105.8**	**100.9**
Administrative expenses	(24.0)	(23.6)
Selling costs	(2.2)	(3.0)
Cost of preparation and execution of commercial development projects	(4.5)	(2.4)
One-off costs (Group privatization and restructuring)	(3.6)	(6.0)
Cost of sales	**71.5**	**65.9**

Property development	Year ended	
	31 December 2015	31 December 2014
Depreciation	0.0	0.1
Materials and energy used	0.1	0.3
External services	3.0	2.2
Taxes and fees	0.2	0.3
Wages and salaries, and other employee benefits	0.7	0.6
Cost of goods for resale and materials sold	0.6	9.0
Change in inventory of finished goods	17.4	25.2
Total operating expenses	**22.0**	**37.7**
Administrative expenses	(2.3)	(1.4)
Selling costs	(0.6)	(0.9)
Cost of maintaining inventories and property development infrastructure	(1.2)	(1.2)
Cost of sales	**17.9**	**34.2**

32. Finance income and costs

Finance income	Year ended	
	31 December 2015	31 December 2014
Interest income	2.4	3.0
Current bank deposits	*1.3*	*2.9*
Other interest	*1.1*	*0.1*
Foreign exchange gains/(losses)	0.3	0.0
Other finance income	0.0	0.1
Total finance income	**2.7**	**3.1**

Finance costs	Year ended	
	31 December 2015	31 December 2014
Financing costs	5.7	0.1
Bank loans	*5.6*	*0.0*
Finance lease	*0.1*	*0.1*
Discount of provisions for claims in respect of benefits derived from leased properties	0.0	2.1
Interest on overdue liabilities	5.8	0.2
Valuation of financial instruments	1.9	0.0
Other finance costs	0.0	0.2
Total finance costs	**13.4**	**2.6**
Net finance income/expense	**(10.7)**	**0.5**

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33. Reconciliation of the effective tax rate

	Year ended	
	31 December 2015	31 December 2014
Current tax	(2.8)	(8.2)
Deferred tax	75.6	102.5
Corporate income tax	**72.8**	**94.3**

	Year ended	
	31 December 2015	31 December 2014
Profit before tax	(22.2)	13.7
Tax calculated at the rate applicable in Poland (19%)	**4.2**	**(2.6)**
Share of profits (losses) of jointly controlled entities	0.1	0.1
Non-taxable income	1.0	0.5
Non-deductible costs (permanent differences)	(0.1)	(0.7)
Net profit /(loss) of partnerships	3.8	0.4
Tax losses for which a deferred tax asset was not recognized or was written off	0.0	(0.6)
Contribution in kind and sale of a property to a subsidiary	63.7	97.2
Other	0.1	0.0
Corporate income tax	**72.8**	**94.3**

Due to the continued process of changing the Group's structure, Warszawski Holding Nieruchomości S.A. and Dalmor S.A. contributed properties to a partnership limited by shares. Before the date of preparation of these consolidated financial statements, the partnership sold selected properties to a special purpose vehicle, which resulted in an increase in their tax value and, consequently, the conditions for reversing the deferred tax provision were fulfilled: in the year ended 31 December 2015: PLN 63.7 million; 2014: PLN 97.2 million.

34. Discontinued operations

In the years ended 31 December 2015 and 31 December 2014, the Group incurred administrative expenses associated with complete discontinuation of fishing activities amounting to PLN 0.2 million in 2015 (2014: PLN 0.2 million).

35. Net profit (loss) attributable to non-controlling shareholders

In the year ended 31 December 2015, the Group generated a positive financial result on discontinued operations of PLN 0.2 million as a result of the reclassification of administrative expenses of PLN 0.2 million relating to complete discontinuation of fishing activities and reversal of the provision for an expired claim of PLN 0.4 million. In 2014, the Group incurred administrative expenses of PLN 0.2 million.

36. Earnings per share

Basic and diluted net earnings (loss) per share attributable to the equity holders of the parent company	Year ended	
	31 December 2015	31 December 2014
Profit attributable to equity holders of the Company (in PLN million)	49.1	105.1
Weighted average number of ordinary shares (in millions)	46.6	46.0
Basic and diluted earnings per share (in PLN)	**PLN 1.05**	**PLN 2.29**

Basic and diluted net earnings (loss) from continuing operations per share attributable to the equity holders of the parent company	Year ended	
	31 December 2015	31 December 2014
Profit from continuing operations attributable to equity holders of the Company (in PLN million)	48.9	105.3
Weighted average number of ordinary shares (in millions)	46.6	46.0
Basic and diluted earnings per share (in PLN)	**PLN 1.05**	**PLN 2.29**

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37. Contingent assets and contingent liabilities

Note 8 includes a disclosure on properties with an unclear legal status owned by the Group. In the case of the favourable outcome of the legal disputes relating to these properties, they will be recognized as assets.

Some of the buildings leased by the Group for office purposes are recorded in the public registers as buildings designated for residential purposes. Changes in the manner of utilization of these buildings were not notified to the relevant authorities nor were the required administrative decisions obtained. Consequently, penalties may be imposed on the Group companies. As at the balance sheet date, the risk of such penalties being imposed on the Group is low and the potential amount of such penalties cannot be reliably estimated. Therefore, the Group did not recognize provisions for the potential penalties.

a) Capital expenditure commitments

There are no material capital expenditure commitments.

b) Operating lease

There are no material contingent liabilities under operating lease contracts.

38. Transactions with related entities

Transactions with the State Treasury and the State Treasury companies

The State Treasury of the Republic of Poland is the entity exercising control over the Group. As a result, transactions between the Group companies and the State Treasury or the related entities of the State Treasury must be disclosed in accordance with the principles set out in IAS 24, Related Party Disclosures.

The Group did not enter into individually significant transactions with the State Treasury related entities. In the ordinary course of its operations, the Group earned lease revenue from entities controlled by the State Treasury. Consequently, the Group is exempt from the requirement to disclose information on transactions and open balances with the State Treasury related entities under IAS 24 para. 18.

Under the Polish law, the Group entities are liable to income tax in Poland. Consequently, they pay the income tax to the State Treasury which is a related entity. The laws and regulations applicable to the Group companies in this respect are identical to those binding other non-related entities.

Revenue from sales of goods for resale and services	Year ended	
	31 December 2015	31 December 2014
Revenue from the State Treasury	**10.2**	**10.7**

Remuneration of key management members

	Year ended	
	31 December 2015	31 December 2014
Remuneration of members of the Management Board of the Parent Company	3.5	3.4
Remuneration of members of the Management Boards of the subsidiaries	0.4	0.3
Remuneration of members of the Supervisory Board of the Parent Company	0.2	0.3
Remuneration of members of the Supervisory Boards of the subsidiaries	0.4	0.4
Total	**4.5**	**4.4**

Transactions with associates and jointly controlled entities (joint ventures)

There were no significant transactions with associates and jointly controlled entities in the years ended 31 December 2015 and 31 December 2014.

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

39. Information on the audit fee

The fees paid or payable to the registered audit firm for the years ended 31 December 2015 and 31 December 2014 by type of services are presented in the following table:

	Year ended	
	31 December 2015	31 December 2014
Financial statements audit and review	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.

40. Other information

Financing of the purchase of an interest in the Kaskada property and re-financing of own contribution

In the year ended 31 December 2015, the Group acquired a part of the property located at Al. Jana Pawła II 12 in Warsaw (Kaskada) and became the sole owner of the property.

On 29 May 2015, PHN SPV 12 Sp. z o.o. and Bank Ochrony Środowiska S.A. concluded a loan agreement. The agreement is for an investment loan to finance the purchase of an interest in the Kaskada property, including refinancing of the Group's own contribution invested in the already held interest in the said property totalling PLN 77.8 million.

The loan is in PLN and bears an interest rate based on the WIBOR rate for 3-monthly deposits plus the bank's margin.

The remaining terms and conditions of the loan agreement, including collateral, do not significantly differ from those commonly applied for similar agreements.

In order to secure the repayment of amounts due under the loan agreement for the financing of the purchase of an interest in the Kaskada property, including refinancing of the Group's own contribution invested in the said property, and to secure due performance of the loan agreement, the subsidiaries of PHN S.A. established, in particular, the following collateral:

(i) a registered pledge on the borrower's shares held by PHN S.A.;
(ii) financial and registered pledges on the receivables in respect of the borrower's bank account agreements;
(iii) powers of attorney to use the borrower's bank accounts and issue instructions to block amounts in these accounts;
(iv) a blank contractual mortgage with equal priority rights on premises representing a separate property in a building at Al. Jana Pawła II 12 with an assignment of rights from an insurance policy;
(v) the borrower's statements on voluntary submission to enforcement based on Art. 97 of the Banking Law;
(vi) agreement for the transfer of the borrower's rights resulting, among other things, from lease agreements;
(vii) a provision for loan servicing – a security deposit amounting to the equivalent of 3 monthly debt servicing.

Acquisition of a loan agreement

On 1 July 2015, the Group purchased 100% of the shares in Andersia Business Centre Sp. z o.o. with its registered office in Poznań (which subsequently changed its name to PHN SPV 33 Sp. z o.o.). At the same time, the Group took over a loan agreement with Bank Zachodni WBK S.A. concluded by Andersia Business Centre Sp. z o.o. for the construction of an office building. The outstanding amount was EUR 25.5 million. Moreover, in September 2015 it took out an additional tranche of an investment loan of EUR 3.1 million. This loan was repaid (refinanced) on 30 October 2015. In its place, a Group company (PHN SPV 15 Sp. z o.o.) concluded a new loan agreement on the same terms and conditions with the same bank. The loan is in EUR and bears an interest rate based on the EURIBOR rate for 3-monthly deposits plus the bank's margin. The remaining terms and conditions of the loan agreement, including collateral, do not significantly differ from those commonly applied for similar agreements.

In order to secure repayment of liabilities resulting from the loan agreement and in order to execute the said agreement properly, the subsidiaries of PHN S.A. established in particular the following security for Bank Zachodni WBK S.A.:

(i) financial and registered pledge on the shares in PHN SPV 15 Sp. z o.o. (hereinafter: "the Borrower") held by the Group companies;
(ii) financial and registered pledges on liabilities resulting from the Borrower's bank account agreements with powers of attorney and voluntary statements of submission to enforcement under Art. 777 of the Code of Civil Procedure;
(iii) a contractual mortgage on the property at Pl. Andersa 7 in Poznań with assignment of rights under the insurance policy for the property;

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(iv) agreement for transfer of the Borrower's rights resulting, among other things, from lease agreements;

(v) the Borrower's submission to enforcement under Art. 777 of the Code of Civil Procedure;

(vi) an obligation to conclude an IRS transaction secured with a mortgage and a statement of voluntary submission to enforcement under Art. 777 of the Code of Civil Procedure;

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

In 2015, the Group 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 Group's opinion, the objection is groundless.

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

Zbigniew Kulewicz
Vice-President of the Management Board in charge of Property Asset Management

Maciej Jankiewicz
President of the Management Board

Grzegorz Grotek
Person responsible for preparing the consolidated financial statements

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POLSKI HOLDING NIERUCHOMOŚCI

CAPITAL GROUP

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2015

POLSKI HOLDING
NIERUCHOMOŚCI S.A.

B. Capital Group Directors' Report

1. General information about the Group

1.1. 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.

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 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.

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?	Where?
• 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	• Warsaw • Kraków • Tricity • Wrocław • Upper Silesian urban area • Łódź • Poznań
How?	**How do we compete?**
• 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	• 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

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1.2. 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 XXX 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 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

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1.3. 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.

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1.4. 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.

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.

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 Wełnianego "TOMTEX" S.A. He graduated from the Faculty of Law at the University of Rzeszów.

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.

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 Lądek-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

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.

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2. 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.

2.1. 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

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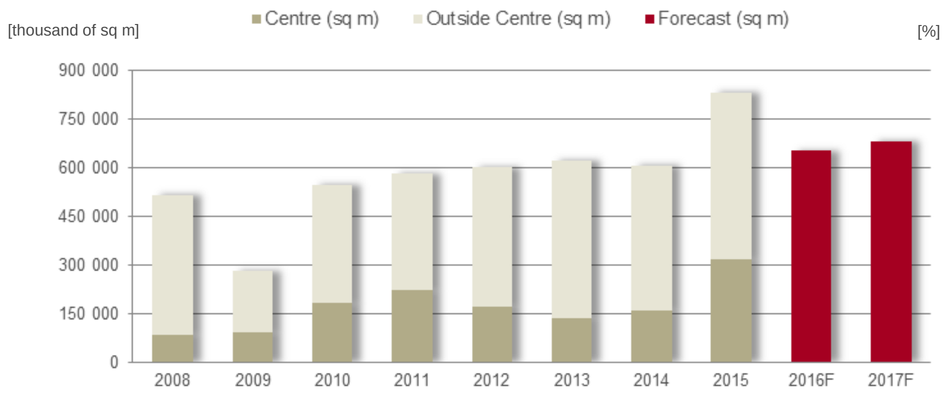
12.3%. This is the second quarterly drop in a row and the lowest value starting from the first quarter of 2014. An equally large increase (of over 56% compared with 2014) occurred in net absorption whose value amounted to nearly 283 000 sq m on an annual basis. This is the best result in the entire history 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".

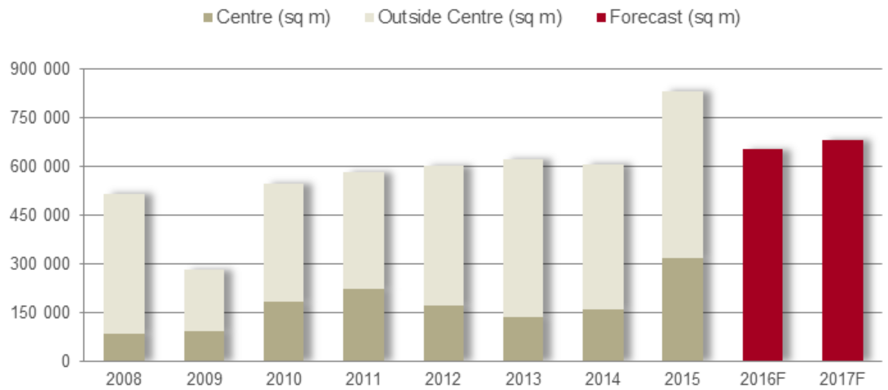
The Warsaw office market in 2015

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.

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The office market in the regions in 2015:

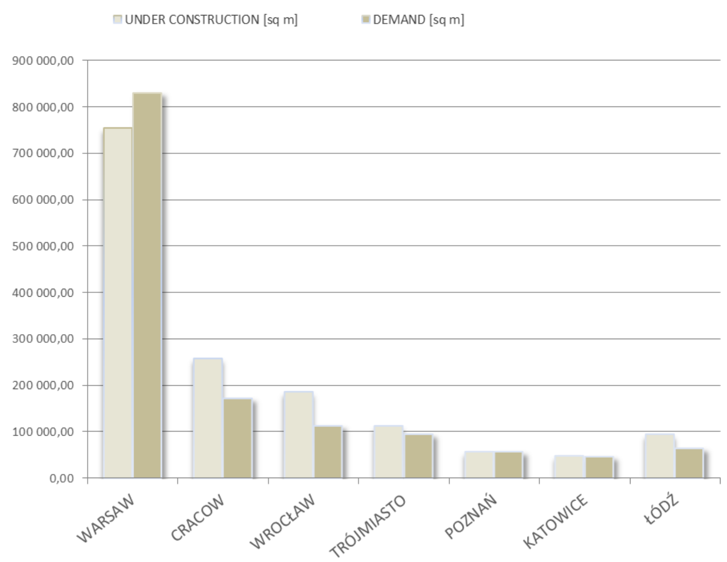
The year 2015 on the office market in the regional cities was a period of continued dynamic development. The continued high activity of developers was accompanied by record demand, fuelled mainly by tenants representing the modern business services sector. Furthermore, the rents and the vacancy ratio 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.

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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

2.2. 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

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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-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.

2.3. 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 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.

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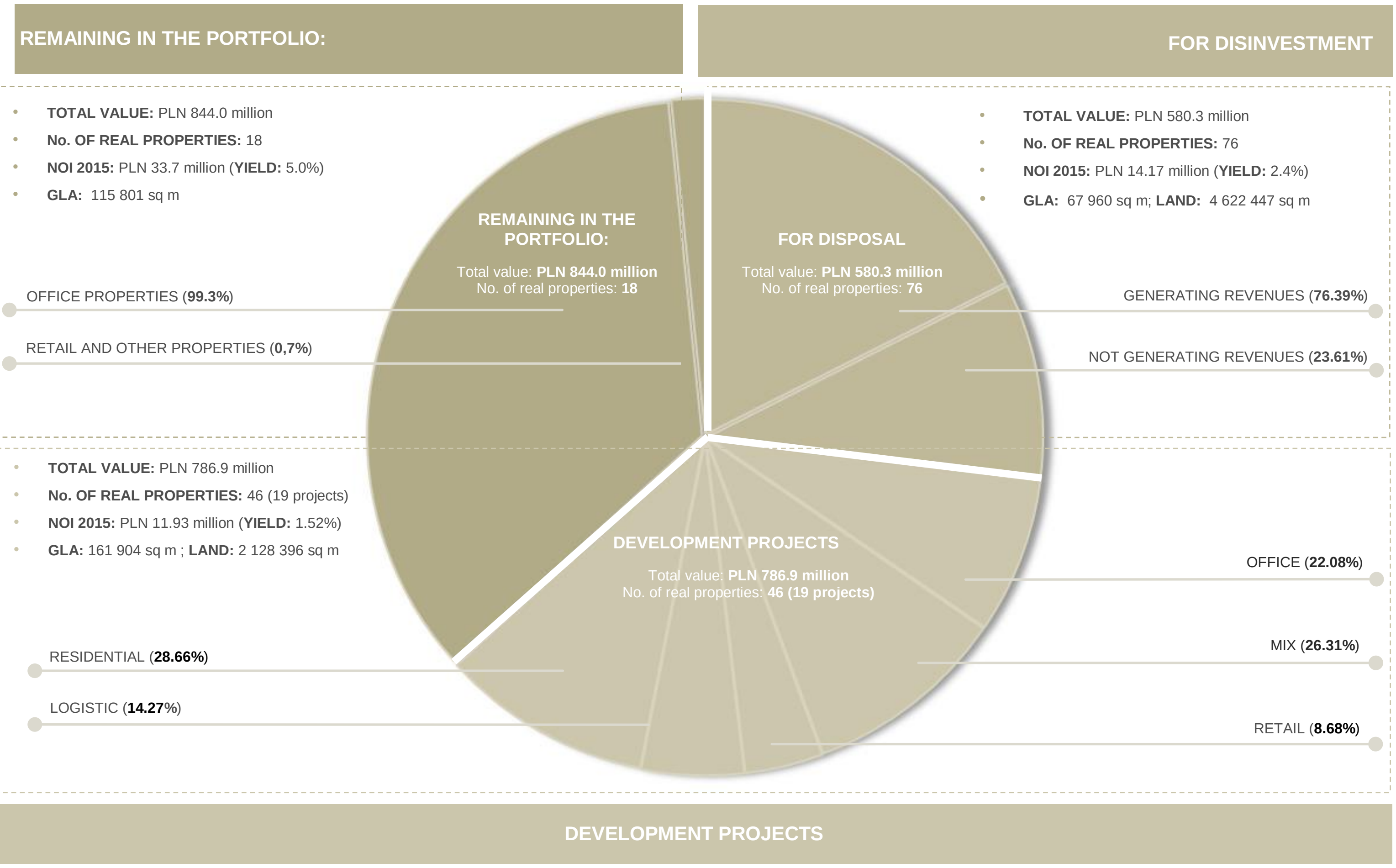
3. Characteristics of the Group's real estate portfolio

3.1 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

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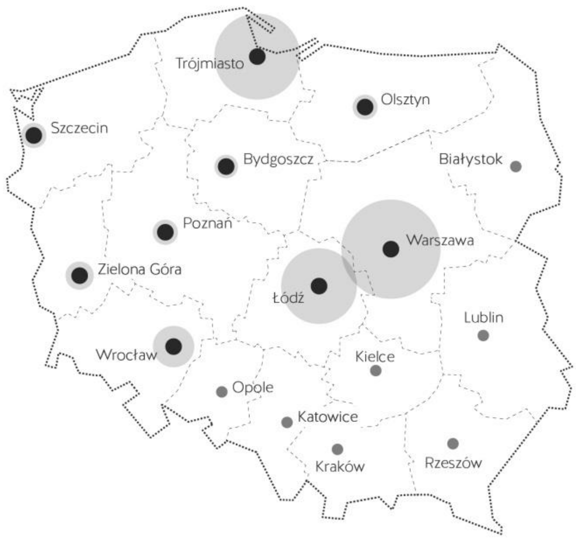
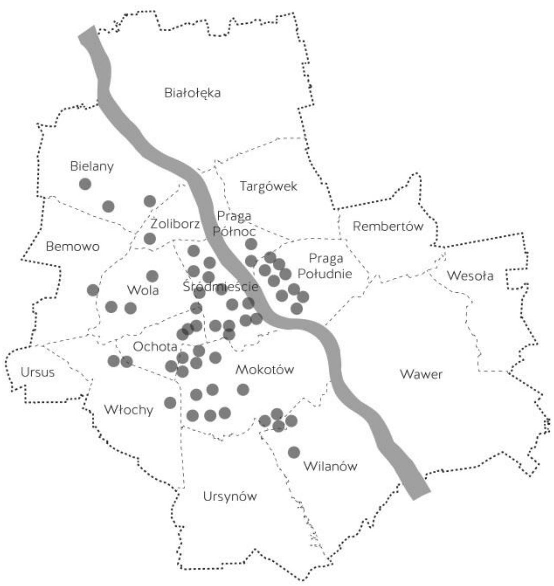
Projects carried out with an external partner (JV)	2 properties with a fair value of PLN 27.8 million, recognized in the financial statements indirectly, as a component of the value of shares in a joint venture carried out with an external partner (JV)
Properties for sale	76 properties with a fair value 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	32 properties with a fair value of PLN 215.1 million, on which residential projects have been completed or are planned, including: ▪ 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 unleasable). 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.

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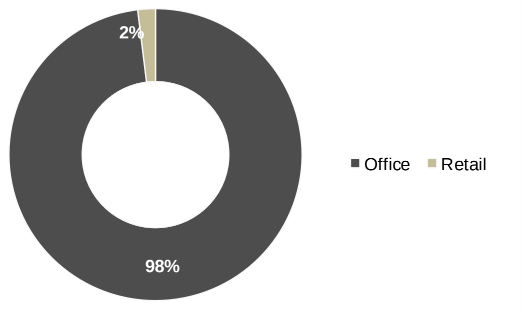
Structure of properties remaining in the portfolio by current purpose

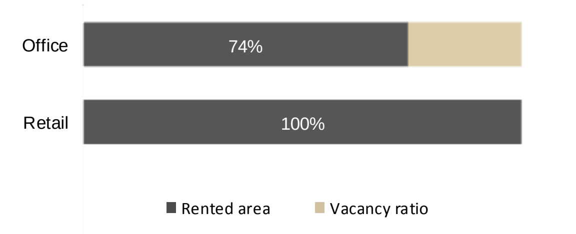
total GLA %



* excluding 19 real properties without regulated legal status

Lease ratio of properties remaining in the portfolio

% of space



Result on 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, 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.

3.2 Disinvestments and acquisitions

In 2015, the Group disposed of 11 real properties, including in Warsaw: Łowicka, Gruzińska 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 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, Gruzińska 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, Racławicka 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 Gruzińska 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, Racławicka 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.

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3.3 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

1. Completed projects

Foksal City (Warsaw)

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.

2. Completed projects

Domaniewska Office HUB (Warsaw)

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%.

3. Completed projects

Retkinia (Biedronka) (Łódź)

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.

4. Pending projects

Wrocław Industrial Park (Wrocław)

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.

5. Pending projects

Parzniew Logistic Center (Parzniew near Pruszków)

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.

6. Pending projects

Molo Rybackie (Gdynia)

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.

7. Projects under preparation

Prymasa Tysiąclecia (Warsaw)

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.

8. Projects under preparation

Stawki 2 (Warsaw)

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.

9. Projects under preparation

Świętokrzyska 36 (City Tower) (Warsaw)

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.

10. Projects under preparation

Wilanowska (Warsaw)

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.

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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.

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.

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.

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.

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.

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.

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 m^2 PUM.

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.

4. 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.

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.

4.1 Commercial space lease market

Lease services offered by the Group comprise:

- ✓ lease of office space;

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- ✓ 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 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.

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

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

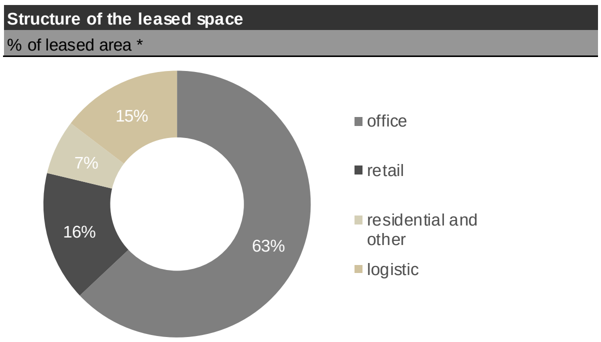
4.4 Target markets as well as the structure of clients and suppliers

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.

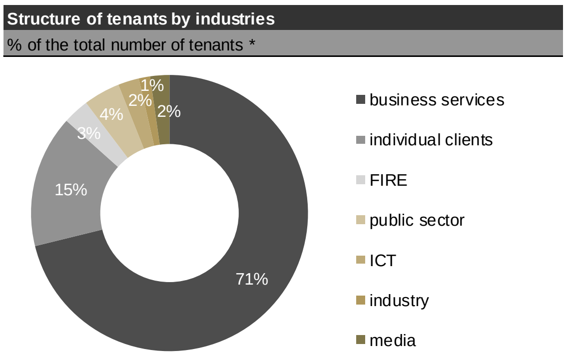
The structure of the Group's tenants and other Group's clients is highly differentiated; therefore, the Group is not exposed to any significant risk associated with a single tenant or group of tenants. As at 31 December 2015, the representatives of the business services sector were the biggest group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

Structure of the leased space



* excluding 19 real properties without regulated legal status

Structure of tenants by industries



FIRE – financial, insurance & real estate sector
ICT – information, communication and technology

* excluding 19 real properties without regulated legal status

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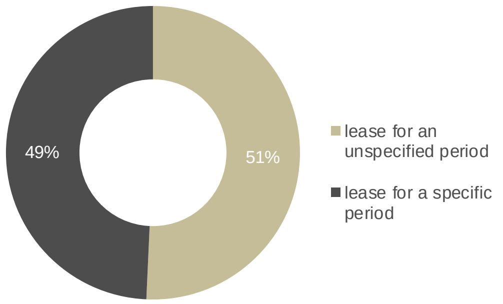
Although new lease agreements are usually concluded for a specified period, nearly half of the GLA is leased out for an unspecified period. The tenants' structure by lease term is presented on the following two graphs:

Structure of the leased space

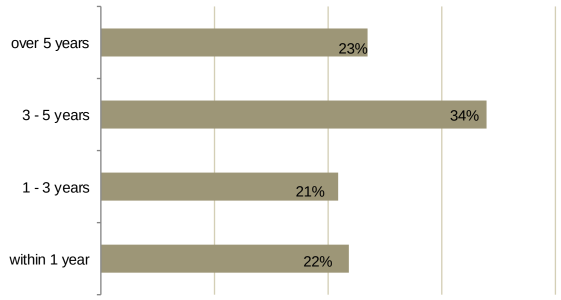
Structure of the leased space according to the period of the agreement
% of GLA *



* excluding 19 real properties without regulated legal status

Structure of tenants by industries

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



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 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.

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;
- ✓ 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.

5. The Group's strategy and development plans

5.1. 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.

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.

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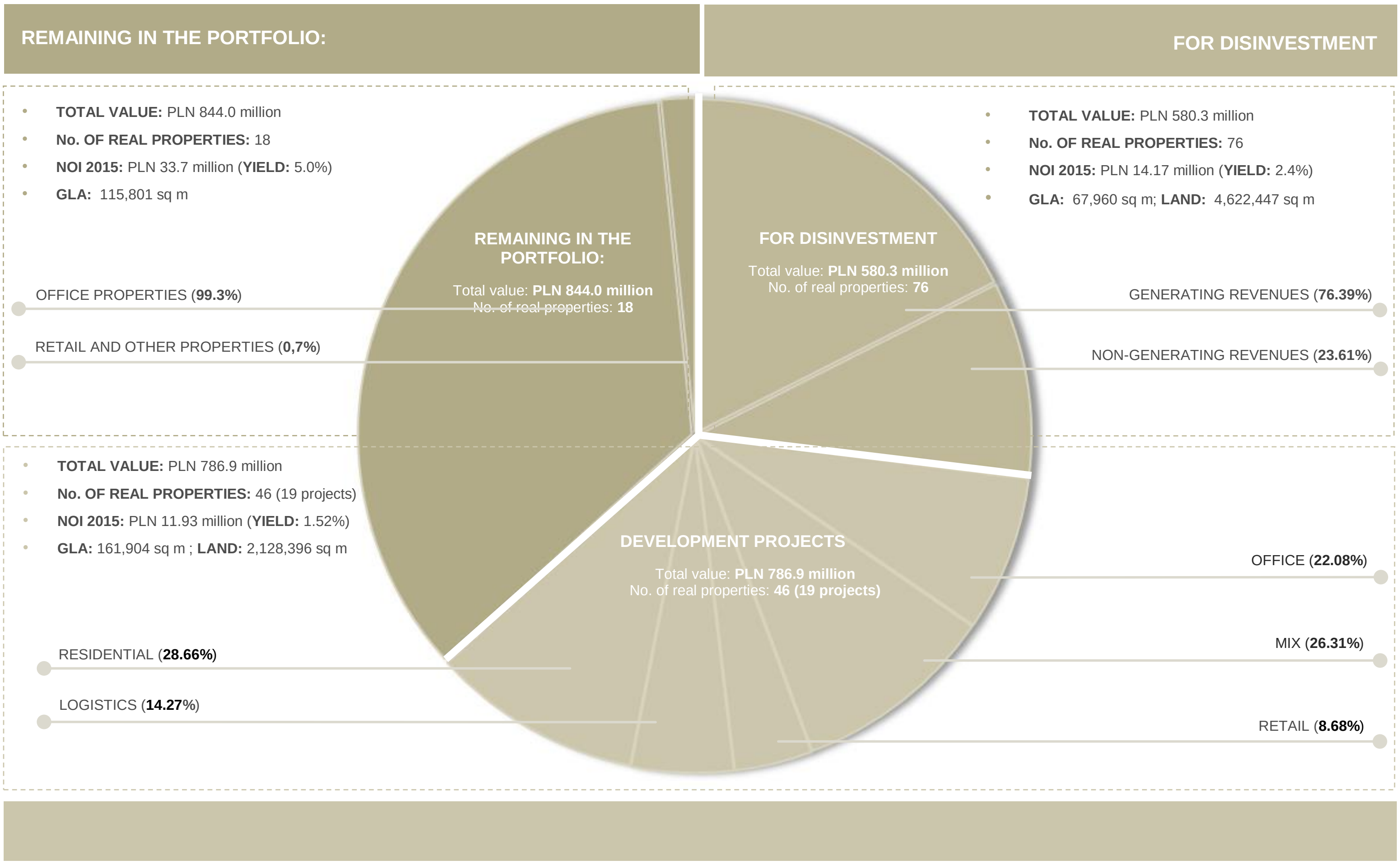
Capital Recycling in PHN S.A.



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

5.2. 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 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 disinvestment 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.

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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.*

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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.

5.3. 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.

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 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 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.

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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.

5.4. 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.

6. Major events in 2015

13.01.2015	23.01.2015
Signing a letter of intent on the purchase of ABC	**Signing JV agreement on Parzniew Logistic Hub**
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.	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	**11.05.2015**
Election of the Vice-President of the Management Board	**Commercialization of the Foksal City office building**
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.	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.

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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.

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.

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.

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

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.

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.

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.

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.

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.

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.

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.

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.

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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.

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, Racławicka 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.

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.

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 Lebiedziński, 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.

7. Financial situation of the Group

In 2015 the real estate market was characterized by a high level of competition, a large supply of new office space, growing pressure on rent decreases and flexible price policy. Despite difficult market conditions, the Group's results improved. The lease result was more than 8% higher than in the previous year, which was mainly due to the acquisition of the Andersia Business Center property in Poznań and a part of the Jana Pawła II 12 (Kaskada) property, as well as the commercialization of developed properties Krywulta 2 and Domaniewska.

EBITDA (operating profit or loss adjusted for the change in the fair value of properties, gain/loss on their disposal, depreciation and amortization, write-downs in respect of properties in property, plant and equipment and inventories, gain/loss on disposal of inventories (land), goodwill amortization, and the effect of changes in the legal status of properties) amounted to PLN 53.4 million and increased by PLN 10.3 million (24%) y/y.

Adjusted EBITDA (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 guarantee repairs and damages payable in connection with property development, change in the provision for claims relating to previous years, and refunded civil law activities tax) amounted to PLN 32.3 million and was PLN 6.8 million (27%) higher than in the previous year.

As at 31 December 2015, the Company employed 118 people.

7.1 Main factors affecting the profit earned

The main factors affecting the Group's financial and operating results in 2015:

- ✓ decrease in the fair value of properties (PLN 90.6 million);
- ✓ change in the Group's structure due to the allocation of properties to special purpose vehicles and the resulting reversal of deferred income tax provision (PLN 63.7 million);
- ✓ change in the assessment of the legal status of three properties (PLN 20.0 million), obtaining the legal title to the property Kryniczna 2 (PLN 5.1 million);
- ✓ refund of tax on civil law transactions (PLN 8.0 million);
- ✓ profit on sale of real estate (PLN 6.8 million);
- ✓ costs of external financing (PLN 5.6 million) and interest on overdue liabilities (PLN 5.8 million);
- ✓ acquisition of commercialized properties (Andersia Business Center);
- ✓ the economic situation in Poland;
- ✓ the real estate market in Poland;
- ✓ the regulatory environment;
- ✓ changes in the composition of the Group's real estate portfolio;
- ✓ costs of property maintenance and capital expenditures on modernization;
- ✓ restructuring of the Group;
- ✓ corporate income tax;
- ✓ employment costs and costs of external services.

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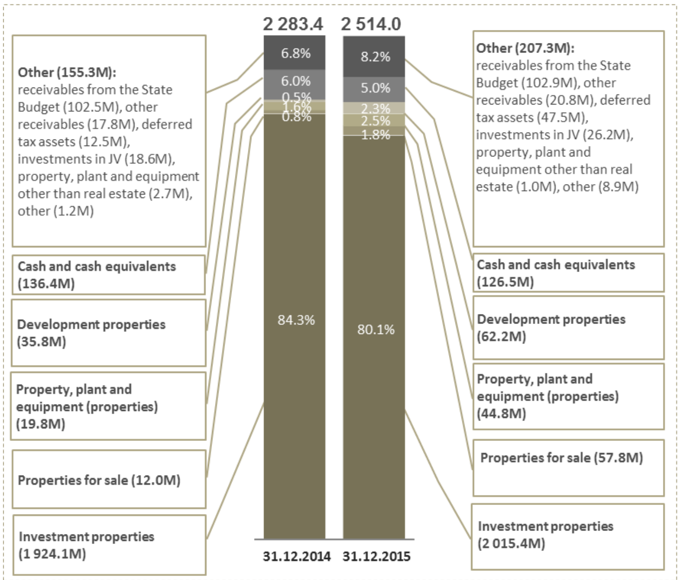
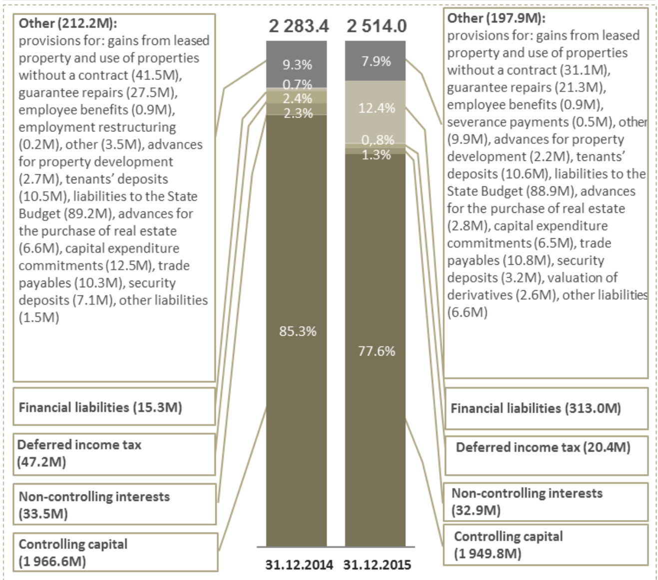
7.2 Analysis of the consolidated statement of financial position

ASSETS



EQUITY AND LIABILITIES



Investment properties constituted the major component of non-current assets. In 2015, their value increased by PLN 91.3 million due to:

- ✓ acquisition of investment properties (Andersia Business Center in Poznań and the remaining part of the property at Jana Pawła II 12 in Warsaw) with a value of PLN 196.3 million;
- ✓ incurring expenditure on commercial development projects (PLN 90.1 million), preparation of commercial development projects (PLN 5.5 million) and modernization of properties (PLN 17.4 million);
- ✓ settlement of space arrangement costs (PLN 2.8 million);
- ✓ reclassification of 2 properties from investment properties to property, plant and equipment due to the commencement of hotel activities on these properties (PLN 26.0 million);
- ✓ reclassification of a part of the property located at Prymasa Tysiąclecia from investment properties to inventories due to the commencement of a residential development project (PLN 46.5 million);
- ✓ reclassification of the following properties from investment properties to non-current assets classified as held for sale: Prądzyńskiego 21, Wiejska 20, Konstancińska 13, Filtrowa 47, Humańska 10, Racławicka 126, Willowa 7, Zawrat 4, Łężyca, the hotel in Pruszków and the hotel in Świebodzin due to finding a buyer (PLN 57.8 million);
- ✓ disclosing a property in assets due to a change in its legal status (PLN 25.1 million);
- ✓ sale of property (PLN 23.2 million);
- ✓ impairment (PLN 86.8 million).

The value of property, plant and equipment increased by PLN 23.3 million in 2015 due to:

- ✓ reclassification of 2 properties from investment properties to property, plant and equipment due to the commencement of hotel activities on these properties (PLN 26.0 million);
- ✓ recognizing depreciation of PLN 1.4 million;
- ✓ purchase of property, plant and equipment of PLN 0.3 million;
- ✓ disposal and impairment of property, plant and equipment of PLN 1.6 million.

Deferred income tax assets increased by PLN 35.0 million in 2015, mainly due to an increase in the asset recognized in respect of the difference between the tax value of the properties and their carrying value, as well as due to the fact that assets in respect of accumulated tax losses were acquired in connection with the acquisition of the company Andersia Business Center Sp. z o.o. (currently SPV 33 Sp. z o.o.).

Current assets increased by PLN 19.9 million in 2015 mainly due to:

- ✓ reclassification of a part of the property located at Prymasa Tysiąclecia from investment properties to inventories due to the commencement of a residential development project (PLN 46.5 million);
- ✓ disposal of units (PLN 20.9 million);
- ✓ incurring expenditure on the construction of development projects (PLN 0.8 million);
- ✓ a decrease in cash and cash equivalents of PLN 9.9 million.

The amount of equity attributable to the equity holders of the parent company in 2015 increased by PLN 2.7 million due to:

- ✓ earmarking the amount of PLN 60.7 million for the payment of dividend to the shareholders;

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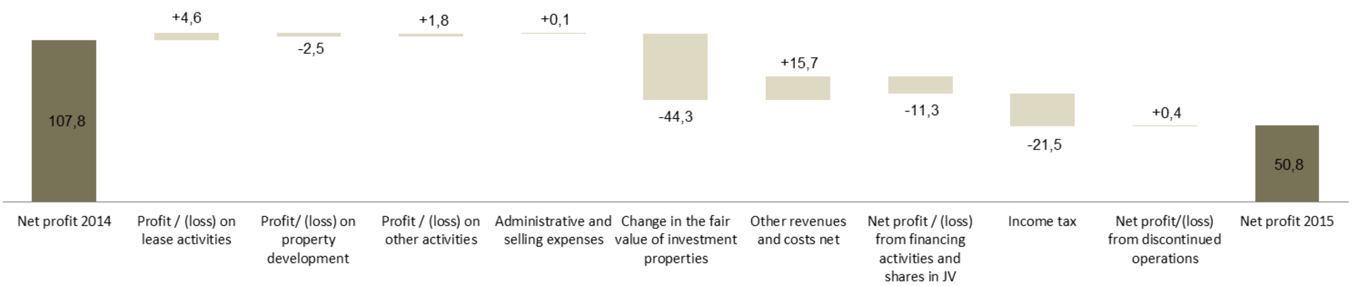
- ✓ generating a net profit (PLN 49.1 million);
- ✓ change in the ownership structure resulting from issue of shares in exchange for shares acquired in subsidiaries (PLN 22.4 million);
- ✓ purchase of shares from non-controlling shareholders (PLN 7.9 million);
- ✓ a decrease in the revaluation reserve (PLN 0.2 million).

The amount of non-current liabilities in 2015 increased by PLN 246.0 million, mainly due to an increase in the liabilities in respect of bank loans of PLN 290.5 million, which was partly offset with a decrease in the deferred tax provision of PLN 34.8 million and in other provisions of PLN 9.7 million.

The amount of current liabilities increased by PLN 2.6 million primarily due to:

- ✓ an increase in current debt (PLN 7.8 million);
- ✓ a decrease in the amount of advance payments for the purchase of investment properties (PLN 3.8 million);
- ✓ a decrease in capital expenditure commitments of PLN 6.0 million;
- ✓ an increase resulting from valuation of financial derivatives of PLN 2.4 million;
- ✓ an increase in other current liabilities of PLN 5.2 million;
- ✓ an increase in tenants' deposits of PLN 0.8 million;
- ✓ a decrease in the amount of advance payments relating to property development business of PLN 0.5 million;
- ✓ a decrease in the amount of security deposits paid by construction subcontractors of PLN 3.2 million;
- ✓ an increase in the amount of current provisions of PLN 1.6 million.

7.3 Analysis of the consolidated statement of comprehensive income



In 2015, the Group earned a net profit of PLN 50.8 million, which was PLN 57.0 million lower than in 2014, due to the net effect of:

- ✓ an increase in the result on lease of PLN 4.6 million, mainly due to the acquisition and commercialization of developed properties;
- ✓ a PLN 2.5 million decrease in the result on property development due to the occurrence of one-off events (in 2015, reversal of the provision for guarantee repairs and compensations of PLN 3.0 million; in 2014, the result on the disposal of undeveloped land and reversal of its impairment of PLN 4.3 million);
- ✓ a PLN 1.8 million increase in the result on other activities due to resuming the hotel business;
- ✓ maintaining stable administrative expenses and selling costs;
- ✓ a PLN 50.7 million increase in impairment write-downs for investment properties (mainly due to the situation on the real estate market, including an increase in the amount of vacant lower-standard space, a decrease in rent rates and capital expenditure planned by the Group), which were partly offset with a PLN 6.4 million increase in the gain on disposal of investment properties;
- ✓ a PLN 19.2 million increase in net other income and expenses, resulting mainly from one-off events, including a change in the legal status of properties and civil law transactions tax refund of PLN 8.0 million, partly offset with goodwill amortization of PLN 4.0 million and a PLN 10.2 million decrease in the amount of reversal of provisions for claims relating to previous years;

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- ✓ a decrease in net finance income /(costs), resulting primarily from an increase in the costs of external financing of PLN 5.6 million, potential interest on disputed VAT liabilities relating to the allocation of properties to special purpose vehicles of PLN 5.7 million; a PLN 33.5 million lower reversal of the deferred income tax provision, resulting mainly from a change in the Group structure consisting of the allocation of properties to special purpose vehicles

EBITDA on continuing operations	2015	2014	2013	2012
Sales revenue	159.7	166.5	171.3	187.7
Operating expenses	(89.4)	(100.1)	(89.6)	(121.6)
Gross profit/(loss) on sales	**70.3**	**66.4**	**81.7**	**66.1**
Administrative and selling expenses	(38.4)	(38.5)	(46.2)	(54.6)
including one-off costs (Group privatization and restructuring)	3.6	*6.0*	*8.6*	*8.2*
Administrative and selling expenses, excluding one-off costs (Group privatization and restructuring)	(34.8)	*(32.5)*	*(37.6)*	*(46.4)*
Net profit/loss on sales	**31.9**	**27.9**	**35.5**	**11.5**
Change in the fair value of investment properties and gain/loss on disposal	(83.8)	(39.5)	(31.0)	(221.4)
Other revenues	54.5	45.1	20.5	7.0
Other costs	(14.7)	(21.0)	(32.0)	(29.6)
Operating profit/ (loss)	**(12.1)**	**12.5**	**(7.0)**	**(232.5)**
Change in the fair value of investment properties and gain/loss on disposal	83.8	39.5	31.0	221.4
Depreciation	1.4	1.3	2.0	2.6
Amortization of goodwill	4.0	0.0	0.0	0.0
Impairment of property, plant and equipment (properties)	1.4	0.0	0.3	3.8
Impairment of inventories (land)	0.0	(1.3)	(0.1)	0.0
Gain/loss on disposal of inventories (land)	0.0	(3.0)	0.0	0.0
Change in the legal status of properties	(25.1)	(5.9)	(13.1)	0.0
EBITDA	**53.4**	**43.1**	**13.1**	**(4.7)**
Provision for guarantee repairs and damages in property development	(3.0)	0.0	(0.8)	12.2
One-off costs (Group privatization and restructuring)	3.6	6.0	8.6	8.9
Costs of severance payments	0.7	1.0	6.9	8.8
Use of properties without a contract	0.0	0.0	0.8	0.0
Refund of tax on civil law transactions	(8.0)	0.0	0.0	0.0
Change in the provision for claims relating to previous years	(14.4)	(24.6)	6.4	0.0
Adjusted EBITDA	**32.3**	**25.5**	**35.0**	**25.2**

Profit/loss on lease	2015	2014	2013	2012
Sales revenue	127.4	120.8	131.2	140.0
Operating expenses	(67.3)	(65.3)	(59.1)	(70.5)
Gross profit/(loss) on sales	**60.1**	**55.5**	**72.1**	**69.5**
Administrative and selling expenses	(28.8)	(28.1)	(33.0)	(32.4)
including one-off costs (Group privatization and restructuring)	3.4	5.3	6.4	1.8
Administrative and selling expenses, excluding one-off costs (Group privatization and restructuring)	(25.4)	(22.8)	(26.6)	(30.6)
Net profit/loss on sales	**31.3**	**27.4**	**39.1**	**37.1**
Change in the fair value of investment properties and gain/loss on disposal	(83.8)	(39.5)	(31.0)	(221.4)
Other revenues	54.3	44.9	19.1	5.9
Other costs	(13.5)	(20.8)	(30.6)	(23.1)
Operating profit/ (loss)	**(11.7)**	**12.0**	**(3.4)**	**(201.5)**
Change in the fair value of investment properties and gain/loss on disposal	83.8	39.5	31.0	221.4
Depreciation	1.2	1.1	1.7	1.9
Amortization of goodwill	4.0	0.0	0.0	0.0
Impairment of property, plant and equipment (properties)	1.0	0.0	0.3	1.4
Change in the legal status of properties	(25.1)	(5.9)	(13.1)	0.0
EBITDA	**53.2**	**46.7**	**16.5**	**23.2**
One-off costs (Group privatization and restructuring)	3.4	5.3	6.4	2.5
Costs of severance payments	0.2	0.9	6.6	6.5
Use of properties without a contract	0.0	0.0	0.8	0.0
Refund of tax on civil law transactions	(8.0)	0.0	0.0	0.0
Change in the provision for claims relating to previous years	(14.4)	(24.6)	6.4	0.0
Adjusted EBITDA	**34.4**	**28.3**	**36.7**	**32.2**

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Despite increased competition on the market of commercial real estate resulting in a decrease in rents, the Group's revenues in the lease segment in 2015 were PLN 4.6 million (8.3%) higher than in the previous year. This increase was mainly due to the purchase of the properties Andersia Business Center in Poznań and Jana Pawła II 12, as well as commercialization of the Krywulta 2 and Domaniewska properties. The net profit/(loss) on sales increased by PLN 6.5 million y/y. EBITDA in the lease segment amounted to PLN 34.4 million and increased by PLN 6.1 million y/y. Adjusted EBITDA amounted to PLN 34.4 million and increased by PLN 6.1 million y/y.

Profit/loss on property development	2015	2014	2013	2012
Sales revenue	26.6	45.4	39.5	43.3
Operating expenses	(17.9)	(34.2)	(29.8)	(44.0)
Gross profit/(loss) on sales	**8.7**	**11.2**	**9.7**	**(0.7)**
Administrative and selling expenses	(4.1)	(3.5)	(4.5)	(7.9)
including one-off costs (Group privatization and restructuring)	0.0	0.0	0.0	0.1
Administrative and selling expenses, excluding one-off costs (Group privatization and restructuring))	(4.1)	(3.5)	(4.5)	(7.8)
Net profit/loss on sales	**4.6**	**7.7**	**5.2**	**(8.6)**
Other revenues	0.2	0.2	1.2	0.6
Other costs	0.0	(0.2)	(1.4)	(4.5)
Operating profit/ (loss)	**4.8**	**7.7**	**5.0**	**(12.5)**
Depreciation	0.0	0.1	0.3	0.6
Impairment of property, plant and equipment (properties)	0.0	0.0	0.0	2.4
Impairment of inventories (land)	0.0	(1.3)	(0.1)	0.0
Gain/loss on disposal of inventories (land)	0.0	(3.0)	0.0	0.0
EBITDA	**4.8**	**3.5**	**5.2**	**(9.5)**
Provision for guarantee repairs and damages in property development	(3.0)	0.0	(0.8)	12.2
One-off costs (Group privatization and restructuring)	0.0	0.0	0.0	0.1
Costs of severance payments	0.0	0.1	0.3	0.8
Adjusted EBITDA	**1.8**	**3.6**	**4.7**	**3.6**

Gross profit from sales in the property development segment in 2015 amounted to PLN 8.7 million and was PLN 2.5 million lower than in the previous year. The lower result in the analysed period was primarily due to one-off events that occurred in 2014: the disposal of two undeveloped land properties (the result on their disposal amounted to PLN 3.0 million) and the reversal of impairment write-downs in respect of undeveloped land of PLN 1.3 million due to an increase in their value; moreover, in 2015 a part of provisions for guarantee repairs and damages in property development of PLN 3.0 million was reversed.

Lower revenues and costs of sales adjusted for one-off events are mainly a result of the sale of the last units in the completed project Parzniew II. In 2015, final agreements for the sale of 87 units were executed (2014: 103 units). Consequently, adjusted EBITDA was lower than in 2014 and it amounted to PLN 1.8 million.

As at 31 December 2015, the Group had 42 built units, including 19 contracted units. The Group had no units under construction as at 31 December 2015. In 2015, the Group concluded 84 preliminary agreements for the sale of units (2014: 95 units).

Profit/loss on other business activities	2015	2014	2013	2012
Sales revenue	5.7	0.3	0.6	4.4
Operating expenses	(4.2)	(0.6)	(0.7)	(7.1)
Gross profit/(loss) on sales	**1.5**	**(0.3)**	**(0.1)**	**(2.7)**
Administrative and selling expenses	0.0	0.0	0.0	(1.6)
Net profit/loss on sales	**1.5**	**(0.3)**	**(0.1)**	**(4.3)**
Other revenues	0.0	0.0	0.0	0.5
Other costs	(0.4)	0.0	0.0	(2.0)
Operating profit/ (loss)	**1.1**	**(0.3)**	**(0.1)**	**(5.8)**
Depreciation	0.2	0.0	0.0	0.0
Impairment of property, plant and equipment (properties)	0.4	0.0	0.0	0.0
EBITDA	**1.7**	**(0.3)**	**(0.1)**	**(5.8)**
Costs of severance payments	0.0	0.0	0.0	1.5
Adjusted EBITDA	**1.7**	**(0.3)**	**(0.1)**	**(4.3)**

Other business activities comprise revenues and costs from hotel business and management services provided to jointly controlled entities. In 2015, the Group generated net profit on sales from other business activities of PLN 1.5 million due to commencing hotel activities in the properties Zgoda 6 and Hotel Wilanów in 2Q 2015.

Unallocated items of the consolidated statement of comprehensive income	2015	2014	2013	2012

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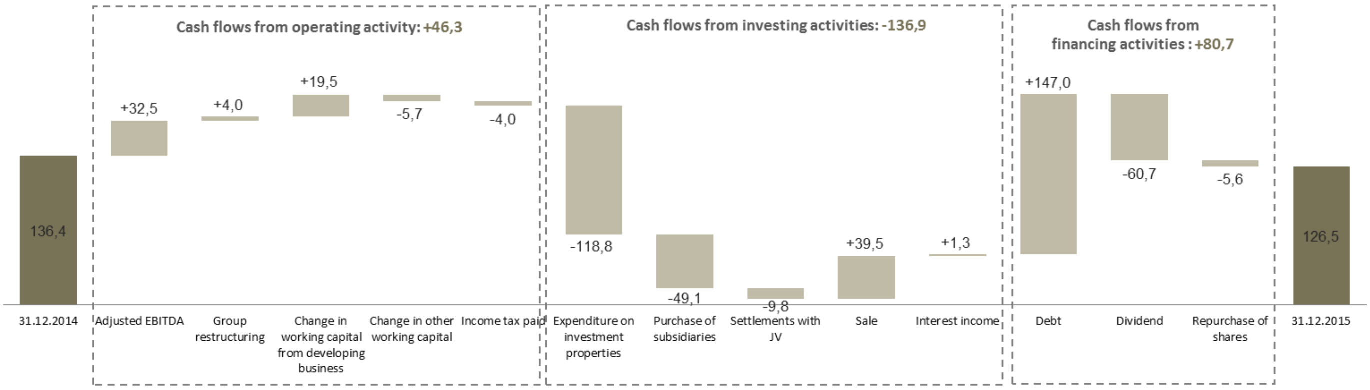
Administrative and selling expenses	(5.5)	(6.9)	(8.7)	(12.7)
Net profit/loss on sales	**(5.5)**	**(6.9)**	**(8.7)**	**(12.7)**
Other revenues	0.0	0.0	0.2	0.0
Operating profit/ (loss)	**(6.3)**	**(6.9)**	**(8.5)**	**(12.7)**
Depreciation	0.0	0.1	0.0	0.1
EBITDA	**(6.3)**	**(6.8)**	**(8.5)**	**(12.6)**
One-off costs (Group privatization and restructuring)	0.2	0.7	2.2	6.3
Costs of severance payments	0.5	0.0	0.0	0.0
Adjusted EBITDA	**(5.6)**	**(6.1)**	**(6.3)**	**(6.3)**

Except for the results of operating segments described, the Group's operating profit/loss for the analysed period was affected by the administrative expenses of the parent company, which acted as a holding company. From the business perspective, such costs are not allocated to operating segments.

7.4 Analysis of the consolidated cash flow statement



In 2015, the Group generated positive net cash flows from operating activities in the amount of PLN 46.3 million, mainly resulting from:

- ✓ generating positive adjusted EBITDA of PLN 32.5 million, including PLN 0.2 million from discontinued operations;
- ✓ one-off expenses amounting to PLN 3.6 million relating to restructuring of the Group;
- ✓ payment of current income tax in the amount of PLN 4.0 million;
- ✓ payment of severance payments of PLN 0.4 million to employees dismissed as part of the employment restructuring process;
- ✓ receiving a refund of tax on civil law transactions in the amount of PLN 8.0 million;
- ✓ generating positive cash flows from property development of PLN 19.5 million, mainly as a result of a decrease in inventories;
- ✓ a decrease in other working capital of PLN 5.7 million.

Negative cash flows from investing activities generated in 2015 of PLN 136.9 million comprised expenditure on investment properties of PLN 118.8 million, acquisition of subsidiaries in the amount of PLN 49.1 million, acquisition of interests in jointly controlled entities of PLN 7.5 million, loans granted to jointly controlled entities of PLN 2.8 million (partly offset with proceeds from the disposal of investment properties and property, plant and equipment of PLN 39.5 million, proceeds from dividends of PLN 0.5 million and proceeds from interest on bank deposits of PLN 1.3 million).

In 2015, the Group generated positive cash flows from financing activities of PLN 80.7 million, resulting from proceeds from bank loans of PLN 175.6 million offset with payment of dividend of PLN 60.7 million, repayment of liabilities in respect of a bank loan of PLN 28.2 million, payment of PLN 5.6 million for shares repurchased from minority shareholders, and repayment of financial liabilities resulting from car fleet lease of PLN 0.4 million.

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7.5 EPRA performance measures

EPRA earnings*

According to EPRA, the ratio represents information, relevant from the point of view of the shareholders, about operating activity generated by the properties portfolio held by the company.

	Year ended	
	31 December 2015	31 December 2014
Net profit/(loss) of the lease segment*	**52.4**	**110.0**
Adjustments	52.4	27.2
Change in the fair value of investment properties and gain/loss on disposal	*83.8*	*39.5*
Amortization of goodwill	*4.0*	*0.0*
Change in the legal status of properties	*(25.1)*	*(5.9)*
Impairment of property, plant and equipment (properties)	*1.0*	*0.0*
Deferred tax associated with the above adjustments	*(11.3)*	*(6.4)*
Net profit/(loss) of the lease segment according to EPRA	**104.8**	**137.2**
Adjustments	(76.7)	(114.5)
One-off costs (Group privatization and restructuring)	*3.4*	*5.3*
Severance payments	*0.2*	*0.9*
Change in provisions for claims relating to previous years	*(14.4)*	*(24.6)*
Interest on free cash	*(1.3)*	*(3.0)*
Refund of tax on civil law transactions	*(8.0)*	*0.0*
Interest on tax on civil law transactions paid	*(0.9)*	*0.0*
Default interest on overdue VAT	*5.7*	*0.0*
Current and deferred tax associated with the above adjustments	*2.3*	*4.1*
Fiscal effect of in-kind contribution to a subsidiary	*(63.7)*	*(97.2)*
Adjusted net profit/(loss) of the lease segment according to EPRA	**28.1**	**22.7**

* Profit/loss on operating activities of the lease segment in 2015: PLN -11.7 million; 2014: PLN 12.0 million after earnings of the lease segment from financing activities in 2015: PLN -11.1 million; 2014: PLN 3.4 million, income tax for 2015: PLN 74.6 million; 2014: PLN 93.9 million and share in profits of associated and jointly controlled entities in 2015: PLN 0.6 million; 2014: PLN 0.7 million

EPRA NIY

EPRA NIY (net initial yield) is calculated as the ratio of lease revenues less non-recoverable operating costs of properties as at the balance sheet date (in annual terms) to the market value of property.

EPRA NIY

	2015*	2014
Investment properties as per the statement of financial position	2,015.4	1,924.1
Land and commercial development projects in progress	(395.9)	(514.9)
Investment properties generating lease revenues	**1,619.5**	**1,409.2**
Lease earnings as per the statement of comprehensive income	60.1	55.5
Adjustments	(5.9)	3.0
Earnings generated by land and commercial development projects in progress	*(0.2)*	*0.1*
Earnings generated by properties with unclear legal status	*(0.1)*	*(0.3)*
Earnings generated by properties classified as held for sale, sold, reclassified to inventories and property, plant and equipment	*(2.9)*	*0.5*
Elimination of deferred income	*(5.5)*	
Fit out elimination	*2.8*	*2.7*
EPRA earnings from lease activities	**54.2**	**58.5**
Estimated transaction costs (1%)	16.2	14.1
EPRA NIY	**3.4%**	**4.1%**

The decrease in EPRA NIY was mainly due to a higher proportion of rent-free periods, which resulted from signing new and renewed lease agreements, and the fact that the Domaniewska property, which is still in the process of commercialization, was included in properties generating lease revenues.

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EPRA NAV and EPRA NNNAV

EPRA NAV (net asset value) presents the fair value of net assets in the long-term perspective. EPRA NNNAV adjusts ERPA NAV for those items of assets and liabilities which in ERPA NAV are not measured at the fair value.

EPRA NAV and NNNAV

	31 December 2015	31 December 2014
Net assets attributable to equity holders of the parent company	1,949.8	1,947.1
Long-term deferred income tax provision	*20.4*	48.7
EPRA NAV	**1,970.2**	**1,995.8**
Difference between the book value and the fair value of net assets	6.9	10.7
EPRA NNNAV	**1,977.1**	**2,006.5**

*EPRA (European Public Real Estate Association www.epra.com) represents the common position of the majority of European companies quoted on financial markets that specialize in property management, and in particular supports the development of those companies that have commercial properties in their portfolio. EPRA appointed a committee, consisting of CFOs, main investors and advisors of associated companies, which analyses reporting issues affecting the property market and takes actions to provide uniform reporting standards in cooperation with IASB and FASB. Below, the Group presented selected ratios developed by EPRA.

7.6 Assessment of financial resources management

Profitability ratios

	31 December 2015	31 December 2014
Operating profitability [1]	15.1%	12.0%
Return on total assets [2]	1.4%	1.1%
Return on equity [3]	1.6%	1.3%

[1] Adjusted EBITDA/Revenues from operating activity

[2] Adjusted EBITDA/Assets

[3] Adjusted EBITDA/Equity

The operating profitability ratio in 2015 amounted to 15.1% (2014: 12.0%). Return on total assets in 2015 amounted to 1.4% compared to 1.1% in 2014. Return on equity amounted to 1.6% in 2015 compared to 1.3% in 2014.

The increase in profitability ratios was mainly due to an increase in the result on lease.

Liquidity ratios

	31 December 2015	31 December 2014
Current liquidity ratio (1)	0.7	0.7
Quick liquidity ratio (2)	1.3	1.4

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

[2] Current assets – Inventories / Current liabilities

The liquidity ratios as at 31 December 2015 and 31 December 2014 were similar and their level was safe for the Group.

Liability ratios

	31 December 2015	31 December 2014
Debt ratio [1]	21.1%	12.4%
Debt to equity ratio [2]	78.9%	87.6%

[1] Assets - equity / Assets

[2] Equity / Assets

The debt ratio as at 31 December 2015 amounted to 21.1% and was 8.7 p.p. higher than as at 31 December 2014 (12.4%). At the same time, the Group maintained a high level of debt to equity ratio: 78.9% as at 31 December 2015 and 87.6% as at 31 December 2014. The increase in the liability ratios is due to an increase in the financing of investing activities with bank loans in line with the development strategy adopted.

7.7 Differences between actual financial results and forecasts

The Group did not publish any forecasts of its results.

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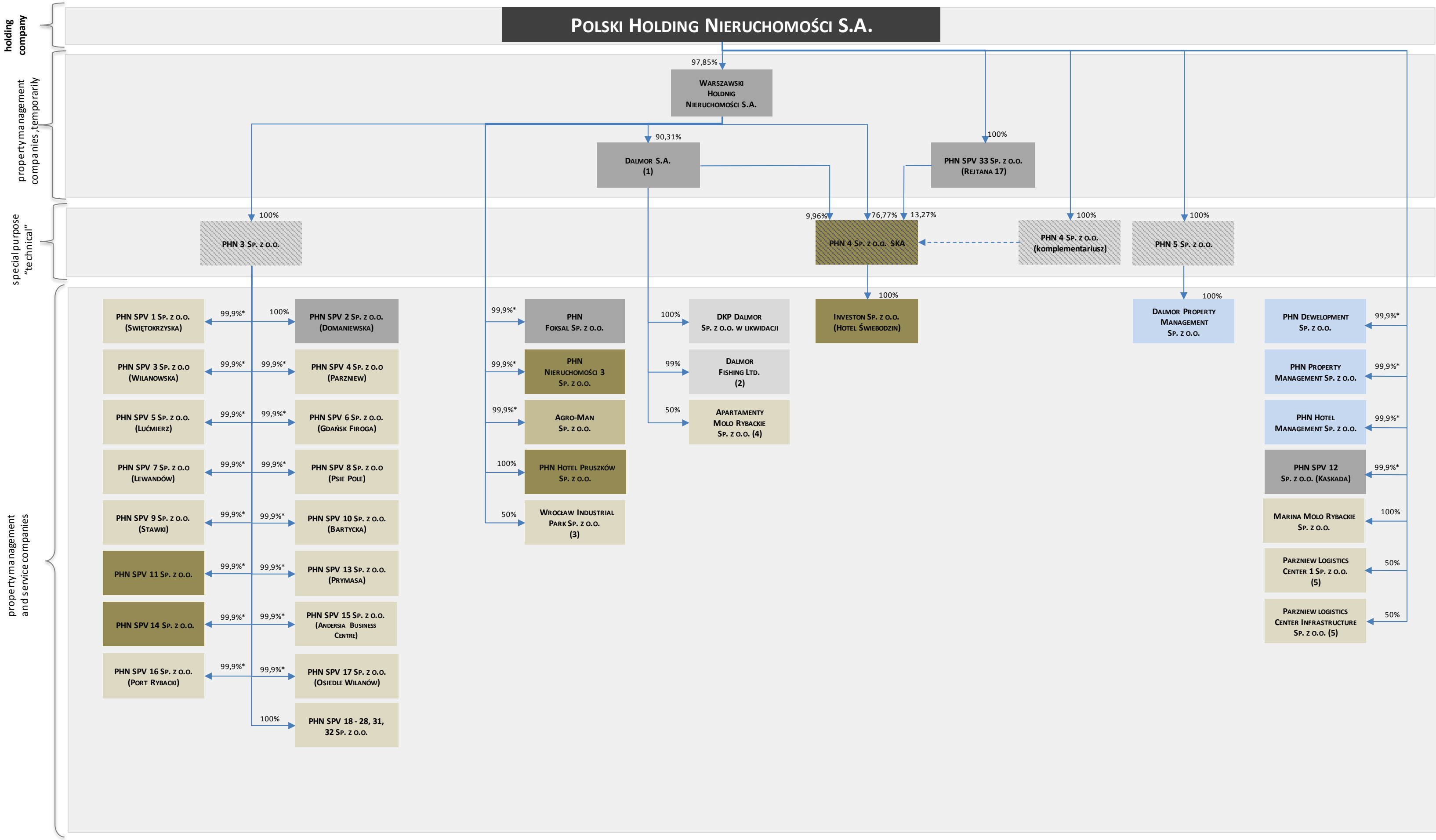
8. Organization of the Group

8.1 Group structure



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

Company designated for executing property development projects (investments)
Housing development activities
Special purpose companies with properties for sale
Service companies
Other (without properties)
Asset management (lease)
Special purpose technical companies

(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 Parzniew Partners B.V. (50%)

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8.2 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.

8.3 Significant non-arm's length transactions

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

8.4 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.

8.5 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 Lebiedziński	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**

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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 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.

9. 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.

9.1 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 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

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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

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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 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.

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 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.

9.2 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.

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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 disinvestment programme are lower than expected
- ✓ 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.

9.3 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 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.

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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.

9.4 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 disinvestment 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 disinvestment 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

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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

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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.

9.5 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

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

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.

10. PHN on the capital market

10.1 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.

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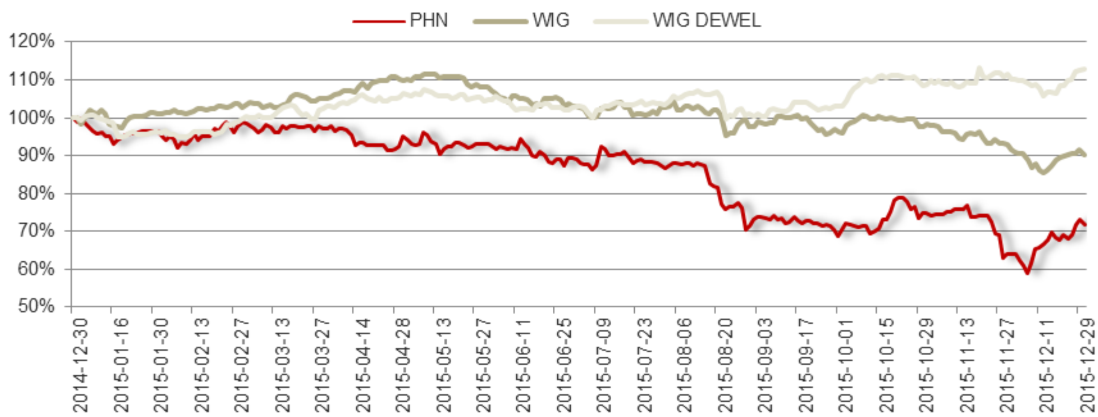
Key data on quotation of shares of PHN S.A.

	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
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

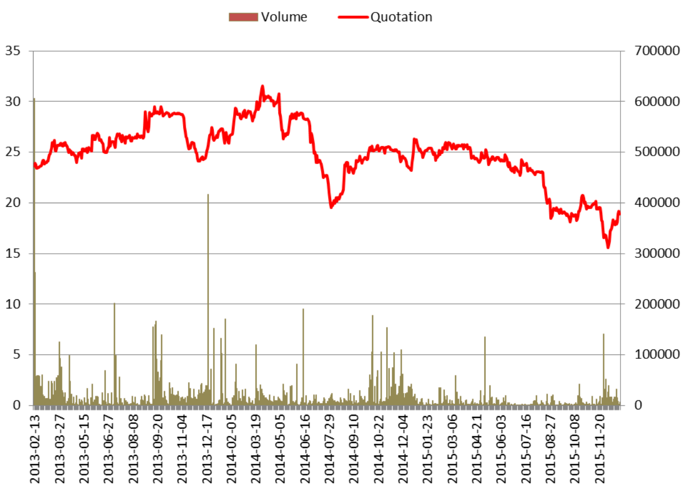
1) Closing share prices

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.



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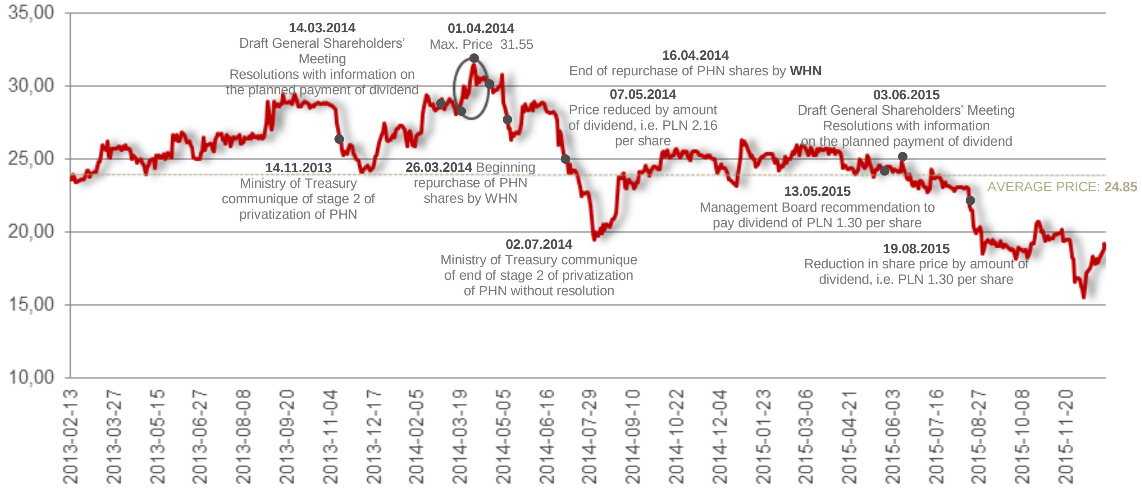
Most important events in respect of PHN S.A. quotations on the WSE in the years 2013 – 2015.



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

10.2 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

10.3 Analysts' recommendations

In 2015 two financial institutions recommended the shares of Polski Holding Nieruchomosci 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.

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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 Kyrcz	+48 22 586 81 59, adrian.kyrcz@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".

10.4 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

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

10.5 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.

11. Corporate governance

11.1 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.

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 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).

The Company's aim is to ensure, to the greatest extent possible, the transparency of its activities, satisfactory communication

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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

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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 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.

11.2 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 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.

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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.

11.3 Shareholders holding significant blocks of shares

11.3.1 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.

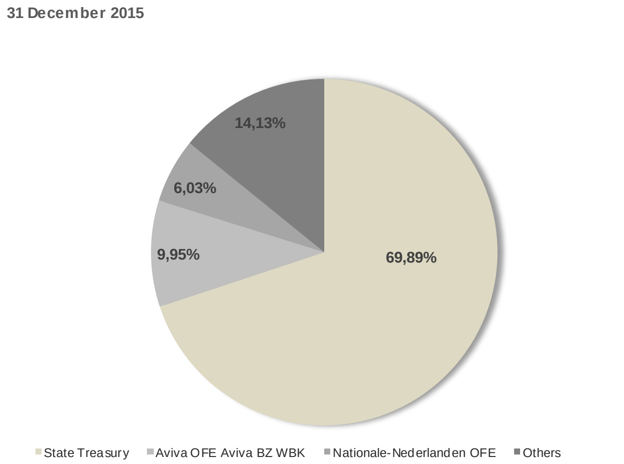
As at the date of preparation of these financial statements, the Management Board of Polski Holding Nieruchomości S.A. is not aware of any agreements that could affect the shareholding structure in the future.

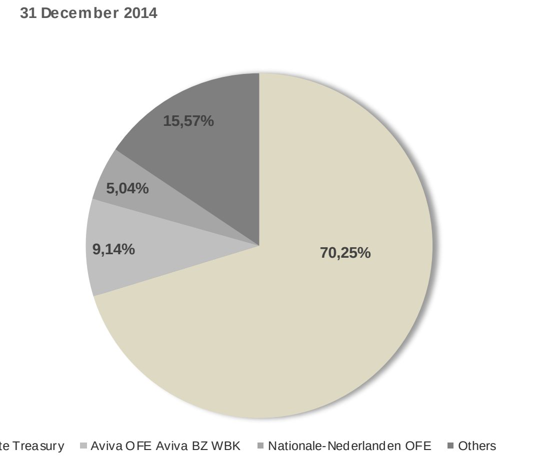
PHN S.A. shareholders as at 31 December 2015 and 31 December 2014

	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





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11.3.2 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.

11.3.3 Employee share programme

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

11.3.4 Acquisition of treasury shares

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

11.3.5 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 foregoing, the State Treasure 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.

11.3.6 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 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

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series PHN S.A. shares issued is 4,353,000, of which 3,338,744 have been admitted to stock exchange trading to date.

11.3.7 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 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 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.

11.3.8 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 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.

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 Lebiedziński, 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 Lebiedziński, 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 Lebiedziński, 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 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 a 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;

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

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

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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

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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.

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.

11.3.9 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 .

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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 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.

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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.

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.

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12. 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.

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.

12.1 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 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.

12.2 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 Dramma 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 Dramma Per Musica

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

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

12.3 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
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.	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.	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.

13. Other information

13.1 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.

13.2 Issue of securities

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

13.3 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.:

(viii) a registered pledge on the borrower's shares held by PHN S.A.;

(ix) financial and registered pledges on dues from the borrower's bank account agreements;

(x) powers of attorney to dispose of the borrower's bank accounts with an order to block funds;

(xi) 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;

(xii) the borrower's declaration of voluntary submission to execution based on art. 97 of the Banking Law;

(xiii) assignment of the rights of the borrower following from – among other things – rental agreements;

(xiv) 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.:

(vii) registered and financial pledges of shares in PHN SPV 15 Sp. z o.o. (hereinafter "the Borrower") owned by the Group companies;

(viii) 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;

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(ix) contractual mortgage on the credited property located at Pl. Andersa 7 in Poznań with an assignment of rights from a property insurance policy;

(x) assignment of the rights of the borrower following from – among other things – rental agreements;

(xi) the Borrower's submission to enforcement based on art. 777 of the Code of Civil Procedure;

(xii) 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.

13.4 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.

13.5 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 consolidated 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

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