



**THE POLSKI HOLDING NIERUCHOMOŚCI SPÓŁKA AKCYJNA
GROUP**

Consolidated quarterly report for the 1st quarter of 2016



**POLSKI HOLDING
NIERUCHOMOŚCI S.A.**

Selected financial data

Wybrane skonsolidowane dane finansowe	in PLN million		in EUR million	
	Period ended	Period ended	Period ended	Period ended
	31 March 2016	31 March 2015	31 March 2016	31 March 2015
I. Operating revenues	40.6	37.4	9.3	8.6
II. Operating profit/(loss)	13.2	10.9	3.0	2.5
III. Profit/(loss) before tax on continued operations	10.1	11.8	2.3	2.7
IV. Net profit /(loss)	8.3	12.7	1.9	2.9
V. Cash flows from operating activities	(56.7)	(35.2)	(13.0)	(8.1)
VI. Cash flows cash from investing activities	(263.9)	(19.9)	(60.6)	(4.6)
VII. Cash flows from financing activities	242.1	20.3	55.6	4.7
VIII. Net increase/(decrease) in cash and cash equivalents	(78.5)	(34.8)	(18.0)	(8.0)
	As at	As at	As at	As at
	31 March 2016	31 December 2015	31 March 2016	31 December 2015
IX. Assets	2,682.0	2,514.0	628.3	589.0
X. Non-current liabilities	544.0	344.6	127.4	80.7
XI. Current liabilities	147.6	186.7	34.6	43.7
XII. Equity attributable to equity holders of the parent	1,958.9	1,949.8	458.9	456.8
XIII. Share capital	46.7	46.7	10.9	10.9
XIV. Number of shares (in pcs)	46,722,747	46,722,747	46,722,747	46,722,747
XV. Net profit (loss) per share attributable to shareholders of the parent (PLN / EUR)	0.18	0.27	0.04	0.06
XVI. Book value per share attributable to shareholders of the parent (PLN / EUR)	41.93	41.73	9.82	9.78

Selected separate financial data	in PLN million		in EUR million	
	Period ended	Period ended	Period ended	Period ended
	31 March 2016	31 March 2015	31 March 2016	31 March 2015
I. Operating revenues	7.1	6.1	1.6	1.4
II. Operating profit/(loss)	7.7	13.9	1.8	3.2
III. Profit (loss) before tax	10.8	16.1	2.5	3.7
IV. Net profit /(loss)	10.4	15.5	2.4	3.6
V. Cash flows from operating activities	1.0	(0.7)	0.2	(0.2)
VI. Cash flows cash from investing activities	0.0	125.1	0.0	28.7
VII. Cash flows from financing activities	(0.1)	(119.4)	(0.0)	(27.4)
VIII. Net increase/(decrease) in cash and cash equivalents	0.9	5.0	0.2	1.1
	As at	As at	As at	As at
	31 March 2016	31 December 2015	31 March 2016	31 December 2015
IX. Assets	1,926.5	1,916.6	451.3	449.0
X. Non-current liabilities	1.9	1.6	0.4	0.4
XI. Current liabilities	6.4	7.3	1.5	1.7
XII. Equity	1,918.2	1,907.7	449.4	446.9
XIII. Share capital	46.7	46.7	10.9	10.9
XIV. Number of shares (in pcs)	46,722,747	46,722,747	46,722,747	46,722,747
XV. Profit (loss) per ordinary share (PLN/EUR)	0.22	0.33	0.05	0.08
XVI. Book value per share (PLN/EUR)	41.05	40.83	9.62	9.57

The above financial data for the period ended 31 March 2016 and for the period ended 31 March 2015 was translated into EUR according to the following rules:

- individual items of assets, liabilities and equity – at the average exchange rate of the National Bank of Poland as at 31 March 2016: 4.2684 PLN/EUR
- individual items of the consolidated statement of comprehensive income and the consolidated statement of cash flows – at the exchange rate representing an arithmetic mean of the average exchange rates of the National Bank of Poland as at the last day of each month of the reporting period from 1 January 2016 to 31 March 2016 – 4.3559 PLN/EUR

Contents

A. Interim condensed consolidated financial statements	6
Interim condensed consolidated statement of changes in equity	8
Interim condensed consolidated statement of cash flows.....	9
Notes to the interim condensed consolidated financial statements	10
1. General information.....	10
2. Basis for preparation of the interim condensed consolidated financial statements	10
3. Management representations concerning the fairness of the preparation of the interim condensed consolidated financial statements.....	10
4. Changes to International Financial Reporting Standards	10
5. Major accounting policies	11
6. Seasonality of operations	11
7. Segment reporting	11
8. Investment properties.....	12
9. Property, plant and equipment	13
10. Investments in associates and jointly controlled entities (joint ventures)	13
11. Non-current financial assets	14
12. Other non-current assets.....	14
13. Inventories related to property development.....	14
14. Structure of receivables.....	14
15. Cash and cash equivalents and explanations to the interim condensed consolidated statement of cash flows	14
16. Non-current assets classified as held for sale.....	15
17. Analysis of liabilities	15
18. Debt by currency.....	15
19. Provisions	16
20. Share capital.....	16
21. Supplementary capital.....	16
22. Revaluation reserve	16
23. Retained earnings.....	16
24. Other reserves	16
25. Revenues from operating activities.....	17
26. Operating expenses	17
27. Costs by type	17
28. Finance income and costs.....	18
29. Reconciliation of effective tax rate	18
30. Net profit attributable to non-controlling interests.....	18
31. Earnings per share.....	19
32. Contingent assets and contingent liabilities	19
33. Transactions with related entities	19
34. Other information	20
35. Post balance sheet date events	20
B. Directors' Report on the operations of the PHN S.A. Group	22
1. General information about the Group	22
2. Group structure	23
3. The Group's property portfolio.....	24
4. The Group's activities	25
4.1. Commercial space lease market	26
4.2. Residential development market	26
4.3. Hotel market	26
6. Financial situation.....	27
6.1. Main factors affecting the profit earned.....	27

POLSKI HOLDING NIERUCHOMOŚCI S.A.

Consolidated quarterly report for the 1st quarter of 2016

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

6.2. Analysis of the consolidated statement of financial position.....	28
6.3. Analysis of the consolidated statement of comprehensive income	29
6.4. Analysis of the consolidated statement of cash flows	31
7. EPRA performance measures	32
8. Operating and investing activities	33
9. Information on related parties	34
9.1. Material transactions concluded by the Parent Company or its subsidiaries with related entities on a non-arm's length basis.....	34
9.2. Transactions with members of the Management and Supervisory Boards of the Parent Company, their spouses, siblings, ascendants, descendants or other relatives.....	34
10. Information on material proceedings before courts, courts of arbitration or administrative authorities	35
11. Other information	35
11.1. Dividends.....	35
11.2. Shareholders holding (directly or indirectly through subsidiaries) at least 5% of the total number of votes at the General Shareholders' Meeting	35
11.3. Shares of the parent company held by Management Board and Supervisory Board members	35
11.4. Information on credit and other guarantees granted by the Company or its subsidiaries, jointly to one entity or to its subsidiary, if the total value of the existing guarantees represents the equivalent of at least 10% of the Company's equity.	
11.5. The Management Board's position concerning the realization of previously published forecasts of the results for the current year.....	36
C. Quarterly financial information.....	38
Separate statement of financial position as at 31 March 2016.....	38
Statement of comprehensive income.....	39
Statement of changes in equity	39
Statement of cash flows	40

**INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS OF
POLSKI HOLDING NIERUCHOMOŚCI S.A.**

FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2016

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



**POLSKI HOLDING
NIERUCHOMOŚCI S.A.**

A. Interim condensed consolidated financial statements

Interim condensed consolidated statement of financial position as at 31 March 2016

	Note	31 March 2016 unaudited	31 December 2015 audited
Non-current assets			
Investment properties	8	2,304.8	2,015.4
Property, plant and equipment	9	45.5	45.8
Intangible assets		0.1	0.1
Investments in associates and jointly controlled entities	10	26.4	26.2
Deferred tax assets		51.8	47.5
Non-current financial assets	11	2.8	2.8
Other non-current assets	12	8.4	6.0
Total non-current assets		2,439.8	2,143.8
Current assets			
Inventories related to property development	13	58.9	62.2
Trade receivables and other assets	14	101.4	121.4
Income tax receivables		2.8	2.3
Cash and cash equivalents	15	48.0	126.5
Total current assets		211.1	312.4
Assets classified as held for sale	16	31.1	57.8
Total assets		2,682.0	2,514.0
Current liabilities			
Trade and other payables	17	(37.9)	(128.9)
Current debt	18	(60.5)	(8.1)
Prepayments related to property development		(1.0)	(2.2)
Income tax liabilities		(0.3)	(0.2)
Current provisions	19	(47.9)	(47.3)
Total current liabilities		(147.6)	(186.7)
Non-current liabilities			
Non-current debt	18	(497.9)	(304.9)
Deferred tax liabilities		(25.2)	(20.4)
Non-current provisions	19	(16.4)	(16.4)
Other non-current liabilities		(4.5)	(2.9)
Total non-current liabilities		(544.0)	(344.6)
Total liabilities		(691.6)	(531.3)
Net assets		1,990.4	1,982.7
Equity			
Share capital	20	46.7	46.7
Supplementary capital	21	1 812.5	1 812.5
Revaluation reserve	22	2.5	3.0
Retained earnings	23	97.1	87.6
Other reserves	24	0.1	0.0
Equity attributable to the equity holders of the parent company		1,958.9	1,949.8
Non-controlling interests		31.5	32.9
Total equity		1,990.4	1,982.7

Notes to the interim condensed consolidated financial statements on pages 10-20 are an integral part of these consolidated financial statements.

This document is a translation of the consolidated report for the 1st quarter of 2016 prepared in Polish. In the case of any doubts as regards its interpretation, the Polish version of the report is binding.

**Interim condensed consolidated statement of comprehensive income
 for the period of 3 months ended 31 March 2016**

	Note	3 months ended	
		31 March 2016 unaudited	31 March 2015 unaudited
Operating activities			
Lease revenues	25	33.6	30.3
Property maintenance costs	26	(18.2)	(16.6)
Profit / (loss) on lease activities		15.4	13.7
Revenues from property development	25	5.4	7.1
Cost of property development	26	(4.2)	(5.5)
Profit/ (loss) on property development		1.2	1.6
Revenue from other activities	25	1.6	0.0
Cost of other activities	26	(1.5)	(0.1)
Profit / (loss) on other activities		0.1	(0.1)
Administrative and selling expenses	27	(7.2)	(7.5)
Change in the fair value of investment properties	8	2.5	(3.8)
Gain (loss) on disposal of investment properties	8	0.3	0.0
Other revenues	25	2.7	10.2
Other costs	26	(1.8)	(3.2)
Operating profit/ (loss)		13.2	10.9
Financial income	28	0.6	0.7
Financial costs	28	(3.9)	(0.0)
Net profit / (loss) on financing activities		(3.3)	0.7
Share in profits of associates and jointly controlled entities	10	0.2	0.2
Profit / (loss) before tax from continued operations		10.1	11.8
Corporate income tax	29	(1.8)	0.5
Net profit / (loss) from continued operations		8.3	12.3
Net profit / (loss) from discontinued operations		0.0	0.4
Net profit/ (loss)		8.3	12.7
Other comprehensive income:			
Hedging instruments		(0.5)	0.0
Other comprehensive income		(0.5)	0.0
Total comprehensive income		7.8	12.7
Net profit / (loss) attributable to			
equity holders of the parent company		8.2	12.4
non-controlling interests	30	0.1	0.3
Comprehensive income attributable to			
equity holders of the parent company		7.7	12.4
non-controlling interests	30	0.1	0.3
Basic and diluted net earnings (loss) per share attributable to the equity holders of the parent company	31	PLN 0.18	PLN 0.27
Basic and diluted net earnings (loss) from continued operations per share attributable to the equity holders of the parent company	31	PLN 0.18	PLN 0.26

Notes to the interim condensed consolidated financial statements on pages 10-20 are an integral part of these consolidated financial statements.

This document is a translation of the consolidated report for the 1st quarter of 2016 prepared in Polish. In the case of any doubts as regards its interpretation, the Polish version of the report is binding.

POLSKI HOLDING NIERUCHOMOŚCI S.A.
 Consolidated quarterly report for the 1st quarter of 2016
 (All amounts are expressed in PLN million unless stated otherwise)

**Interim condensed consolidated statement of changes in equity
 for the period of 3 months ended 31 March 2016**

Equity attributable to the equity holders of the parent company

	Note	Share capital	Supplementary capital	Revaluation reserve	Retained earnings	Other reserves	Equity attributable to the equity holders of the parent company	Non-controlling interests	Total equity
As at 1 January 2016		46.7	1,812.5	3.0	87.6		1,949.8	32.9	1,982.7
Net profit for the period					8.2		8.2	0.1	8.3
Other comprehensive income - hedging instruments				(0.5)			(0.5)		(0.5)
Total comprehensive income for the period				(0.5)	8.2		7.7	0.1	7.8
Share issue	24					0.1	0.1		0.1
Changes in the structure of non-controlling interests					1.3		1.3	(1.5)	(0.2)
As at 31 March 2016		46.7	1,812.5	2.5	97.1	0.1	1,958.9	31.5	1,990.4
As at 1 January 2015		46.5	1,746.3	3.2	151.1		1,947.1	53.6	2,000.7
Net profit for the period					12.4		12.4	0.3	12.7
Total comprehensive income for the period					12.4		12.4	0.3	12.7
Share issue						2.0	2.0		2.0
Changes in the structure of non-controlling interests					1.5		1.5	(3.5)	(2.0)
As at 31 March 2015		46.5	1,746.3	3.2	165.0	2.0	1,963.0	50.4	2,013.4

Notes to the interim condensed consolidated financial statements on pages 10-20 are an integral part of these consolidated financial statements.

This document is a translation of the consolidated report for the 1st quarter of 2016 prepared in Polish. In the case of any doubts as regards its interpretation, the Polish version of the report is binding.

**Interim condensed consolidated statement of cash flows
for the period of 3 months ended 31 March 2016**

	Note	3 months ended	
		31 March 2016 unaudited	31 March 2015 unaudited
Cash flows from operating activities			
Profit before tax		10.1	12.2
Adjustments to cash flows from operating activities		(66.8)	(46.7)
Amortization and depreciation		0.3	0.2
Settlement of space arrangement costs		0.8	0.7
Change in the fair value of investment properties and gain/loss on disposal		(2.8)	3.8
Share of profits (losses) of jointly controlled entities		(0.2)	(0.2)
Interest income from investing activities		(0.3)	(0.1)
Financing costs		2.4	0.0
Change in working capital	15	(65.7)	(49.0)
Income tax paid		(1.3)	(2.1)
Net cash flows from operating activities		(56.7)	(34.5)
Cash flows from investing activities			
Total inflows		4.0	0.4
Proceeds from sale of investment properties		3.7	0.3
Interest from investing activities		0.3	0.1
Total outflows		(267.9)	(21.0)
Expenditure on investment properties		(267.9)	(20.0)
Purchase of shares in subsidiaries		0.0	(1.0)
Net cash flows from investing activities		(263.9)	(20.6)
Cash flows from financing activities			
Total inflows		248.9	23.8
Bank loans		248.9	23.8
Total outflows		(6.8)	(3.5)
Bank loans		(6.6)	(3.4)
Repayment of finance lease liabilities		(0.1)	(0.1)
Repurchase of shares		(0.1)	0.0
Net cash flows from financing activities		242.1	20.3
Total net cash flows		(78.5)	(34.8)
Change in cash and cash equivalents in the balance sheet		(78.5)	(34.8)
Cash and cash equivalents at the beginning of the period		126.5	136.4
Cash and cash equivalents at the end of the period		48.0	101.6

Notes to the interim condensed consolidated financial statements on pages 10-20 are an integral part of these consolidated financial statements.

This document is a translation of the consolidated report for the 1st quarter of 2016 prepared in Polish. In the case of any doubts as regards its interpretation, the Polish version of the report is binding.

Notes to the interim condensed consolidated financial statements

1. General information

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 Group comprising PHN S.A. and its subsidiaries (together "the Group"). As at the balance sheet date, the State Treasury was the entity controlling PHN S.A.

PHN S.A. with the other members of its Group are one of the largest entities in Poland in the commercial real estate sector in terms of the portfolio value. The Group's portfolio comprises over 140 properties, separated for business purposes, with a value of approx. PLN 2.4 billion PHN S.A.'s activities are concentrated in Warsaw and the largest regional cities, including, in Poznań, Tricity, Łódź and Wrocław.

The Group has many years' experience in the following sectors: office, retail and logistics, both in property management and in

carrying out investment projects. The Group carries out modern commercial projects on its own and in cooperation with top partners with many years' experience and a well-established market position. The projects of PHN S.A. 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.

Since 13 February 2013 PHN S.A. shares have been listed on the Warsaw Stock Exchange in the continuous quotation system.

As at 31 March 2016, PHN S.A. was the parent company (directly or indirectly) to 49 entities. The structure of the Group is presented in the Directors' Report for the Group (note 2).

2. Basis for preparation of the interim condensed consolidated financial statements

These interim condensed consolidated financial statements have been prepared in accordance with the requirements of IAS 34, "Interim Financial Reporting" and the Decree of the Minister of Finance of 19 February 2009 on current and periodical information submitted by issuers of securities and conditions for considering the information required under the legislation of a non-Member State as equivalent (consolidated text: Journal of Laws of 2014, item 133) ("the Decree") and present the financial position of the Polski Holding Nieruchomości S.A. Group as at 31 March 2016 and 31 December 2015, the results of its operations and cash flows for the periods of 3 months ended 31 March 2016 and 31 March 2015.

These interim condensed consolidated financial statements have been prepared on the assumption that the Group will

continue in operation as a going concern in the foreseeable future. As at the date of approval of these interim condensed consolidated 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 other Group entities is unlimited.

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

The interim condensed 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.

3. Management representations concerning the fairness of the preparation of the interim condensed consolidated financial statements

The Management Board of Polski Holding Nieruchomości S.A. hereby declares that, to the best of its knowledge, these interim condensed 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.

4. Changes to International Financial Reporting Standards

Changes in IFRS standards and interpretations presented in note 3 to the consolidated financial statements as at and for the year ended 31 December 2015, which became effective between 1 January 2016 and the date of approval of these interim condensed consolidated financial statements by the Management Board, did not have a material impact on these interim condensed consolidated financial statements.

The Group intends to adopt changes to IFRS published but not yet binding by the date of publication of these interim condensed consolidated financial statements in accordance with their effective date.

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

5. Major accounting policies

These interim condensed consolidated financial statements have been prepared in accordance with the accounting policies described in the consolidated financial statements of the Polski Holding Nieruchomości S.A. Group as at and for the year ended 31 December 2015.

Significant judgements made by the Management Board in these interim condensed consolidated financial statements in relation to the application of the Group's accounting policies and the main sources of uncertainty in its estimates were the same as those described in note 5.3 to the consolidated financial statements as at and for the year ended 31 December 2015.

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 logistic 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 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.

Segmental analysis for the period of 3 months ended 31 March 2016 and as at 31 March 2016 (unaudited)

	Leases	Property development	Discontinued operations	Other activities	Unallocated	Total
Sales	33.6	5.4		1.6		40.6
Operating expenses	(18.2)	(4.2)		(1.5)		(23.9)
Gross profit/(loss) on sales	15.4	1.2		0.1		16.7
Administrative and selling expenses	(5.2)	(0.9)			(1.1)	(7.2)
Change in the fair value of investment properties	2.5					2.5
Gain (loss) on disposal of investment properties	0.3					0.3
Other revenues	2.7					2.7
Other costs	(1.8)					(1.8)
Operating profit/ (loss)	13.9	0.3		0.1	(1.1)	13.2
Finance income					0.6	0.6
Finance costs					(3.9)	(3.9)
Share in profits of associates and jointly controlled entities					0.2	0.2
Corporate income tax					(1.8)	(1.8)
Segment profit (loss)	13.9	0.3	-	0.1	(6.0)	8.3
Segment assets	2,566.7	71.2	0.1	30.8	13.2	2,682.0
Segment liabilities	660.0	23.9	0.6	1.3	5.8	691.6
Capital expenditure	6.0					6.0
Amortization and depreciation	0.2			0.1		0.3

Other revenues include mainly: in the lease segment - a reversal of a part of the provision for using a property without a contract of PLN 1.3 million; reimbursement of the fee for perpetual usufruct of land of PLN 0.9 million; a reversal of receivables write-downs of PLN 0.3 million.

Other costs include mainly: in the lease segment - receivables write-downs of PLN 0.8 million; costs relating to a change in the VAT deducting structure of PLN 0.8 million.

POLSKI HOLDING NIERUCHOMOŚCI S.A.

Consolidated quarterly report for the 1st quarter of 2016
(All amounts are expressed in PLN million unless stated otherwise)

Segmental analysis for the period of 3 months ended 31 March 2015 (unaudited) and as at 31 March 2015 (audited)

	Leases	Property development	Discontinued operations	Other activities	Unallocated	Total
Sales	30.3	7.1				37.4
Operating expenses	(16.6)	(5.5)		(0.1)		(22.2)
Gross profit/(loss) on sales	13.7	1.6		(0.1)		15.2
Administrative and selling expenses	(5.8)	(0.8)			(0.9)	(7.5)
Change in the fair value of investment properties	(3.8)					(3.8)
Other revenues	10.1	0.1	0.4			10.6
Other costs	(3.2)					(3.2)
Operating profit/ (loss)	11.0	0.9	0.4	(0.1)	(0.9)	11.3
Finance income					0.7	0.7
Share in profits of associates and jointly controlled entities					0.2	0.2
Corporate income tax					0.5	0.5
Segment profit (loss)	11.0	0.9	0.4	(0.1)	0.5	12.7
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	43.4					43.4
Amortization and depreciation	0.2					0.2

Other revenues include mainly: in the lease segment – 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 1.1 million; a reversal of receivables write-downs of PLN 0.7 million.

Other costs include mainly: in the lease segment - receivables write-downs of PLN 2.6 million; costs relating to a change in the VAT deducting structure of PLN 0.3 million; severance pay for dismissed employees of PLN 0.2 million.

8. Investment properties

Movements in investment properties	3 months ended	
	31 March 2016 unaudited	31 March 2015 unaudited
As at 1 January	2,015.4	1,924.1
Purchase of investment properties	258.0	0.0
Expenditure on investment properties	6.0	43.4
Settlement of space arrangement costs	(0.8)	(0.7)
Change in the fair value of investment properties	3.2	(3.8)
Reclassification from/to non-current assets classified as held for sale	23.0	(7.2)
As at the end of the period	2,304.8	1,955.8

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

Investment properties - effect on the financial result	3 months ended	
	31 March 2016 unaudited	31 March 2015 unaudited
Rental income from investment properties	33.6	30.3
Direct operating expenses incurred on rent-generating investment properties	(18.2)	(16.6)
Change in the fair value of investment properties	3.2	(3.8)
Gain on disposal of investment properties	0.3	0.0
<i>Revenues from sale of properties classified as investment properties or assets held for sale</i>	<i>4.0</i>	<i>6.1</i>
<i>Cost of properties sold (classified as investment properties or assets held for sale)</i>	<i>(3.7)</i>	<i>(6.1)</i>
Gain (loss) on investment properties	18.9	9.9

In the 1st quarter of 2016, the Group purchased a property located at Al. Grunwaldzka 409 in Gdańsk (Alchemia II).

total amount of PLN 3.0 million; in Q1 2015: Domaniewska 37C, Retkinia in the total amount of PLN 41.8 million;

Expenditure on investment properties comprise:

✓ expenditure relating to the construction of commercial development projects in Q1 2016: Domaniewska 37C in the

✓ expenditure on the preparation of the commercial development projects amounting to: Q1 2016: PLN 0.2 million; Q1 2015: PLN 0.5 million;

Notes to the interim condensed consolidated financial statements on pages 10-20 are an integral part of these consolidated financial statements.

This document is a translation of the consolidated report for the 1st quarter of 2016 prepared in Polish. In the case of any doubts as regards its interpretation, the Polish version of the report is binding.

POLSKI HOLDING NIERUCHOMOŚCI S.A.

Consolidated quarterly report for the 1st quarter of 2016

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

- ✓ modernization and arrangement of properties amounting to:
3M 2016: PLN 2.8 million; Q1 2015: PLN 0.4 million.

In the 1st quarter of 2016, the Group sold the property at ul. Filtrowa 47 in Warsaw, part of the properties in Łężyca and Parzniew.

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".

9. Property, plant and equipment

	3 months ended	
	31 March 2016 unaudited	31 March 2015 unaudited
As at 1 January	45.8	22.5
Purchase	0.0	0.1
Depreciation	(0.3)	(0.2)
As at the end of the period	45.5	22.4

The value of properties included in property, plant and equipment as at 31 March 2016 amounted to PLN 44.6 million, and as 31 December 2015 - PLN 44.8 million.

10. Investments in associates and jointly controlled entities (joint ventures)

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

- ✓ Wrocław Industrial Park Sp. z o.o.

- ✓ Apartamenty Molo Rybackie Sp. z o.o.
✓ Parzniew Logistics Center Infrastructure Sp. z o. o.
✓ Parzniew Logistics Center 1 Sp. z o. o.

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

	3 months ended	
	31 March 2016 unaudited	31 March 2015 unaudited
As at 1 January	26.2	18.6
Purchase	0.0	1.0
Share in profits	0.2	0.2
As at the end of the period	26.4	19.8

Jointly controlled entities are not listed on an active market. Their selected financial data as at and for the period of 3 months ended 31 March 2016 and 31 March 2015 is as follows:

	Assets	Equity	Liabilities	Revenues	Profit	The Group's share in
						profit
Wrocław Industrial Park	40.4	38.7	1.7	0.5	0.4	0.2
Apartamenty Molo Rybackie	15.6	14.6	1.0	0.0	(0.1)	(0.0)
Parzniew Logistics Center Infrastructure	3.5	(0.1)	3.6	0.0	0.0	0.0
Parzniew Logistics Center 1	2.0	(0.1)	2.1	0.0	(0.0)	(0.0)
Total	61.5	53.1	8.4	0.5	0.3	0.2

Notes to the interim condensed consolidated financial statements on pages 10-20 are an integral part of these consolidated financial statements.

This document is a translation of the consolidated report for the 1st quarter of 2016 prepared in Polish. In the case of any doubts as regards its interpretation, the Polish version of the report is binding.

11. Non-current financial assets

Non-current financial assets of the Group as at 31 March 2016 and 31 December 2015 include loans granted to jointly controlled entities in the amount of PLN 2.8 million.

12. Other non-current assets

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

13. Inventories related to property development

Structure of inventories	31 March 2016 unaudited	31 December 2015 audited
Land	49.8	50.1
Work in progress	1.7	0.8
Finished goods	7.4	11.3
Total inventories related to property development	58.9	62.2

Changes in inventories during the financial year	3 months ended	
	31 March 2016 unaudited	31 March 2015 unaudited
As at 1 January	62.2	35.8
Expenditure on construction	0.9	0.0
Disposal of premises	(4.2)	(5.5)
As at the end of the period	58.9	30.3

The item "land" includes all land associated with residential property development.

14. Structure of receivables

Structure of receivables	31 March 2016 unaudited			31 December 2015 audited		
	Total	Financial	Non-financial	Total	Financial	Non-financial
Trade receivables and other assets	101.4	13.4	88.0	121.4	12.4	109.0
Trade receivables	13.3	13.3	0.0	9.0	9.0	0.0
Receivables from the State Budget	74.4	0.0	74.4	100.6	0.0	100.6
<i>VAT on purchase of properties within the Group</i>	19.5	0.0	19.5	97.6	0.0	97.6
<i>Other receivables from the State Budget</i>	54.9	0.0	54.9	3.0	0.0	3.0
Prepayments	13.6	0.0	13.6	8.4	0.0	8.4
Other receivables	0.1	0.1	0.0	3.4	3.4	0.0
Income tax receivables	2.8	0.0	2.8	2.3	0.0	2.3
Total receivables and other assets	104.2	13.4	90.8	123.7	12.4	111.3

15. Cash and cash equivalents and explanations to the interim condensed consolidated statement of cash flows

Analysis of cash and cash equivalents	31 March 2016 unaudited	31 December 2015 audited
Cash in hand and at bank	11.9	18.2
Current bank deposits	36.1	108.3
As at the end of the period	48.0	126.5

Reconciliation of changes in certain items in the balance sheet with changes resulting from the statement of cash flows

Changes in working capital in the statement of cash flows	3 months ended	
	31 March 2016 unaudited	31 March 2015 unaudited
Change in inventories	3.3	(0.3)
Change in receivables	20.0	5.5
Change in other assets	(2.4)	37.2
Change in liabilities	(87.2)	(91.5)
Change in provisions	0.6	0.1
Total	(65.7)	(49.0)

Notes to the interim condensed consolidated financial statements on pages 10-20 are an integral part of these consolidated financial statements.

This document is a translation of the consolidated report for the 1st quarter of 2016 prepared in Polish. In the case of any doubts as regards its interpretation, the Polish version of the report is binding.

POLSKI HOLDING NIERUCHOMOŚCI S.A.

Consolidated quarterly report for the 1st quarter of 2016
(All amounts are expressed in PLN million unless stated otherwise)

16. Non-current assets classified as held for sale

	3 months ended	
	31 March 2016 unaudited	31 March 2015 unaudited
As at 1 January	57.8	12.0
Reclassification from/to investment properties	(23.0)	7.2
Disposal	(3.7)	(6.1)
As at the end of the period	31.1	13.1

17. Analysis of liabilities

Analysis of liabilities	31 March 2016 unaudited			31 December 2015 audited		
	Total	Financial	Non-financial	Total	Financial	Non-financial
Current liabilities						
Debt	60.5	60.5	0.0	8.1	8.1	0.0
Bank loans	60.1	60.1	0.0	7.6	7.6	0.0
Car fleet leases	0.4	0.4	0.0	0.5	0.5	0.0
Trade and other payables	37.9	33.4	4.5	128.9	37.4	91.5
Trade payables	9.4	9.4	0.0	10.8	10.8	0.0
Capital expenditure commitments	3.5	3.5	0.0	6.5	6.5	0.0
Tenants' deposits	12.6	12.6	0.0	9.8	9.8	0.0
Payables to the State Budget	2.1	0.0	2.1	88.7	0.0	88.7
VAT on disposal of properties within the Group	0.0	0.0	0.0	84.8	0.0	84.8
Other payables to the State Budget	2.1	0.0	2.1	3.9	0.0	3.9
Prepayments for purchase of properties	2.4	0.0	2.4	2.8	0.0	2.8
Deposits of construction work subcontractors	2.9	2.9	0.0	3.1	3.1	0.0
Valuation of derivative financial instruments	0.4	0.4	0.0	0.6	0.6	0.0
Other current liabilities	4.6	4.6	0.0	6.6	6.6	0.0
Income tax liabilities	0.3	0.0	0.3	0.2	0.0	0.2
Prepayments related to property development	1.0	0.0	1.0	2.2	0.0	2.2
Total current liabilities	99.7	93.9	5.8	139.4	45.5	93.9
Non-current liabilities						
Debt	497.9	497.9	0.0	304.9	304.9	0.0
Bank loans	497.8	497.8	0.0	304.8	304.8	0.0
Car fleet leases	0.1	0.1	0.0	0.1	0.1	0.0
Other	4.5	4.5	0.0	2.9	2.9	0.0
Tenants' deposits	1.0	1.0	0.0	0.8	0.8	0.0
Deposits of construction work subcontractors	0.1	0.1	0.0	0.1	0.1	0.0
Valuation of derivative financial instruments	3.4	3.4	0.0	2.0	2.0	0.0
Total non-current liabilities	502.4	502.4	0.0	307.8	307.8	0.0
Total liabilities	602.1	596.3	5.8	447.2	353.3	93.9

18. Debt by currency

Debt by currency	31 March 2015 unaudited	31 December 2015 audited
Bank loans	557.9	312.4
EUR	421.7	230.3
PLN	136.2	82.1
Car fleet leases	0.5	0.6
PLN	0.5	0.6
Total debt	558.4	313.0

Notes to the interim condensed consolidated financial statements on pages 10-20 are an integral part of these consolidated financial statements.

This document is a translation of the consolidated report for the 1st quarter of 2016 prepared in Polish. In the case of any doubts as regards its interpretation, the Polish version of the report is binding.

POLSKI HOLDING NIERUCHOMOŚCI S.A.

Consolidated quarterly report for the 1st quarter of 2016
(All amounts are expressed in PLN million unless stated otherwise)

19. Provisions

Provision	31 March 2016 unaudited			31 December 2015 audited		
	Total	Non-current	Current	Total	Non-current	Current
Claims in respect of benefits derived from leased properties and non-contractual use of properties	31.2	15.5	15.7	31.1	15.5	15.6
Guarantee repairs and compensations in property development	21.3	0.0	21.3	21.3	0.0	21.3
Severance payments	0.5	0.0	0.5	0.5	0.0	0.5
Employee benefits	0.9	0.9	0.0	0.9	0.9	0.0
Other	10.4	0.0	10.4	9.9	0.0	9.9
Total	64.3	16.4	47.9	63.7	16.4	47.3

20. Share capital

	31 March 2016 unaudited	31 December 2015 audited
Number of shares as at 1 January	46,722,747	46,482,044
Share issue	0	240,703
Number of shares at the end of the period (fully paid)	46,722,747	46,722,747

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.

21. Supplementary capital

The supplementary capital consists of:

- ✓ Share premium of PLN 1,751.9 million,

- ✓ Appropriation of profit of PLN 60.6 million.

22. 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 0.7 million.

23. Retained earnings

Retained earnings recognized as at 31 December 2015 of PLN 87.6 million increased to PLN 97.1 million as at 31 March 2016 due to:

- ✓ the net profit generated by the Group in Q1 2016 of PLN 8.2 million;

- ✓ recognition of the excess of the book value of non-controlling interests of PLN 1.4 million;
- ✓ repurchase of a part of shares in subsidiaries from non-controlling shareholders of PLN 0.1 million.

24. Other reserves

The commitment to issue own shares in exchange for the acquired shares in subsidiaries, which were not issued by PHN S.A. as at the balance sheet date, was recognized in other reserves in the amount of PLN 0.1 million.

Notes to the interim condensed consolidated financial statements on pages 10-20 are an integral part of these consolidated financial statements.

This document is a translation of the consolidated report for the 1st quarter of 2016 prepared in Polish. In the case of any doubts as regards its interpretation, the Polish version of the report is binding.

POLSKI HOLDING NIERUCHOMOŚCI S.A.

Consolidated quarterly report for the 1st quarter of 2016
(All amounts are expressed in PLN million unless stated otherwise)

25. Revenues from operating activities

Revenues from operating activities	3 months ended	
	31 March 2016 unaudited	31 March 2015 unaudited
Lease revenues	33.6	30.3
Revenues from property development	5.4	7.1
Revenues from other activities	1.6	0.0
Hotel business	1.6	0.0
Total revenues from operating activities	40.6	37.4

Other revenues	3 months ended	
	31 March 2016 unaudited	31 March 2015 unaudited
Revaluation of receivables	0.3	0.7
Reversal of provision for using properties without a contract	1.3	1.1
Reversal of other provisions	0.1	0.0
Refund of tax on civil law transactions	0.0	8.0
Refund of the fee for perpetual usufruct of land	0.9	0.0
Other	0.1	0.4
Total other revenues	2.7	10.2

26. Operating expenses

Operating expenses	3 months ended	
	31 March 2016 unaudited	31 March 2015 unaudited
Property maintenance costs	18.2	16.6
Cost of property development	4.2	5.5
Costs of other activities	1.5	0.1
Hotel business	1.5	0.1
Total operating expenses	23.9	22.2

Other costs	3 months ended	
	31 March 2016 unaudited	31 March 2015 unaudited
Revaluation of receivables	0.8	2.6
Change in the structure of VAT deductions	0.8	0.3
Severance payments	0.0	0.2
Other	0.2	0.1
Total other costs	1.8	3.2

27. Costs by type

The Group, excluding property development	3 months ended	
	31 March 2016 unaudited	31 March 2015 unaudited
Amortization and depreciation	0.3	0.2
Materials and energy used	4.3	4.0
External services	11.0	9.1
Taxes and fees	6.1	5.6
Wages and salaries, and other employee benefits	4.2	4.4
Other costs by type	0.1	0.1
Total operating expenses	26.0	23.4
Administrative expenses	(5.0)	(5.4)
Selling costs	(0.3)	(0.6)
Cost of preparation and execution of commercial development projects	(0.9)	(0.6)
One - off costs (Group privatization and restructuring)	(0.1)	(0.1)
Cost of sales	19.7	16.7

Notes to the interim condensed consolidated financial statements on pages 10-20 are an integral part of these consolidated financial statements.

This document is a translation of the consolidated report for the 1st quarter of 2016 prepared in Polish. In the case of any doubts as regards its interpretation, the Polish version of the report is binding.

POLSKI HOLDING NIERUCHOMOŚCI S.A.

Consolidated quarterly report for the 1st quarter of 2016
(All amounts are expressed in PLN million unless stated otherwise)

Property development	3 months ended	
	31 March 2016 unaudited	31 March 2015 unaudited
Amortization and depreciation	0.0	0.1
External services	0.7	0.6
Wages and salaries, and other employee benefits	0.2	0.1
Cost of goods for resale and materials sold	0.3	0.2
Change in inventory of finished goods	3.9	5.3
Total operating expenses	5.1	6.3
Administrative expenses	(0.6)	(0.3)
Selling costs	(0.1)	(0.2)
Cost of maintaining inventories and property development infrastructure	(0.2)	(0.3)
Cost of sales	4.2	5.5

28. Finance income and costs

Finance income	3 months ended	
	31 March 2016 unaudited	31 March 2015 unaudited
Interest income	0.4	0.7
<i>Current bank deposits</i>	0.3	0.1
<i>Other interest</i>	0.1	0.6
Valuation of financial instruments	0.2	0.0
Total finance income	0.6	0.7

Finance costs	3 months ended	
	31 March 2016 unaudited	31 March 2015 unaudited
Financing costs	2.4	0.0
<i>Loans and advances</i>	2.4	0.0
Valuation of financial instruments	0.7	0.0
Foreign exchange losses	0.6	0.0
Other finance costs	0.2	0.0
Total finance costs	3.9	0.0
Net finance income/expense	(3.3)	0.7

29. Reconciliation of effective tax rate

	3 months ended	
	31 March 2016 unaudited	31 March 2015 unaudited
Current tax	(0.9)	(2.3)
Deferred tax	(0.9)	2.8
Corporate income tax	(1.8)	0.5

	3 months ended	
	31 March 2016 unaudited	31 March 2015 unaudited
Profit before tax	10.1	11.8
Tax calculated at the rate applicable in Poland (19%)	(1.9)	(2.2)
Non-taxable income	0.0	0.8
Non-deductible costs (permanent differences)	(0.1)	(0.1)
Utilisation of previously unrecognized tax losses	0.2	0.0
Net profit /(loss) of partnerships	0.0	2.0
Corporate income tax	(1.8)	0.5

30. Net profit attributable to non-controlling interests

In the first 3 months of 2016, shares were repurchased from holders of non-controlling interests in Warszawski Holding Nieruchomości S.A. and Dalmor S.A. The profit attributable to

non-controlling interests was determined based on the assumption that they participate in the entire net profit for the period of 3 months ended 31 March 2016 and 31 March 2015.

Notes to the interim condensed consolidated financial statements on pages 10-20 are an integral part of these consolidated financial statements.

This document is a translation of the consolidated report for the 1st quarter of 2016 prepared in Polish. In the case of any doubts as regards its interpretation, the Polish version of the report is binding.

31. Earnings per share

Basic and diluted net earnings (loss) per share attributable to the equity holders of the parent company	3 months ended	
	31 March 2016 unaudited	31 March 2015 unaudited
Profit attributable to equity holders of the Company (in PLN million)	8.2	12.4
Weighted average number of ordinary shares (in millions)	46.7	46.5
Basic and diluted earnings (loss) per share (in PLN)	PLN 0.18	PLN 0.27

Basic and diluted net earnings (loss) from continued operations per share attributable to the equity holders of the parent company	Year ended	
	31 March 2016 unaudited	31 March 2015 unaudited
Profit from continued operations attributable to equity holders of the Company (in PLN million)	8.2	12.0
Weighted average number of ordinary shares (in millions)	46.7	46.5
Basic and diluted earnings (loss) per share (in PLN)	PLN 0.18	PLN 0.26

32. Contingent assets and contingent liabilities

Note 8 to the consolidated financial statements for 2015 includes a disclosure of real properties with an unclear legal status held 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.

33. 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	3 months ended	
	31 March 2016 unaudited	31 March 2015 unaudited
Revenue from the State Treasury	2.8	3.0

Remuneration of key management members

	3 months ended	
	31 March 2016 unaudited	31 March 2015 unaudited
Remuneration of members of the Management Board of the Parent Company	1.5	0.6
Remuneration of members of the Management Boards of the subsidiaries	0.1	0.1
Remuneration of members of the Supervisory Board of the Parent Company	0.1	0.1
Remuneration of members of the Supervisory Boards of the subsidiaries	0.1	0.1
Total	1.8	0.9

Transactions with associates and jointly controlled entities (joint ventures)

There were no significant transactions with associates and jointly controlled entities in the three-month periods ended 31 March 2016 and 31 March 2015.

Notes to the interim condensed consolidated financial statements on pages 10-20 are an integral part of these consolidated financial statements.

This document is a translation of the consolidated report for the 1st quarter of 2016 prepared in Polish. In the case of any doubts as regards its interpretation, the Polish version of the report is binding.

34. Other information

On 25 March 2016, PHN SPV 33 Sp. z o.o. ING Bank Śląski S.A. concluded a loan agreement. The agreement is for an investment loan of EUR 43.7 million and a loan in PLN for the financing of VAT on the purchase price in an amount equivalent to EUR 12.0 million.

The loan bears interest based on EURIBOR for three-month deposits (in the part denominated in EUR and dedicated to the financing of the purchase price) and based on WIBOR for one-month deposits (in the part denominated in PLN), plus a margin.

In order to secure repayment of amounts due under the loan agreement for the purchase of real property and in order to execute the said agreement properly, the subsidiaries of PHN S.A. ("the Company") established in particular the following security for the bank:

- (i) mortgages on the perpetual usufruct right to the purchased property;

- (ii) a financial and registered pledge on all shares of PHN SPV 33 established by the shareholder - the Company;
- (iii) a financial and registered pledge on the receivables - the bank accounts of PHN SPV 33 Sp. z o.o.; and
- (iv) a transfer of amounts due under the agreements concluded by PHN SPV 33 Sp. z o.o. and insurance contracts (in particular, concerning the purchased property);
- (v) an agreement on subordination of receivables (in particular, loans and bonds issued by PHN SPV 33 Sp. z o.o. and acquired by a subsidiary of PHN S.A.);
- (vi) the statements of PHN SPV 33 Sp. z o.o. (as the borrower) and the Company (as the pledger) on voluntary submission to enforcement.

35. 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 interim condensed consolidated financial statements.

These interim condensed consolidated financial statements were approved by the Management Board of the Parent Company on 12 May 2016.

Piotr Staroń

Member of the Management Board
in charge of Finance

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

**ADDITIONAL INFORMATION TO THE CONSOLIDATED
QUARTERLY REPORT OF
POLSKI HOLDING NIERUCHOMOŚCI S.A.**

FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2016



**POLSKI HOLDING
NIERUCHOMOŚCI S.A.**

B. Directors' Report on the operations of the PHN S.A. Group

1. General information about the Group

Polski Holding Nieruchomości S.A. ("PHN S.A.", "the Group") 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 over PLN 2.4 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:

About the Polski Holding Nieruchomości S.A. Group

POLSKI HOLDING NIERUCHOMOŚCI S.A.

What?

- Offices – major part of the real estate portfolio
- Logistics – only with international portfolios
- Retail – "made to measure" for selected tenants
- Apartments – Group locations and risk diversification

Where?

- | | |
|--|---|
| <ul style="list-style-type: none"> • Warsaw • Kraków • Tricity • Wrocław | <ul style="list-style-type: none"> • Upper Silesian urban area • Łódź • Poznań |
|--|---|

How?

- Attractive locations
- Effective asset management
- "Lift the whale and cut its tail off"
- Quality of customer relationships
- Investment portfolio optimization
- Asset turnover
- New development projects

How do we compete?

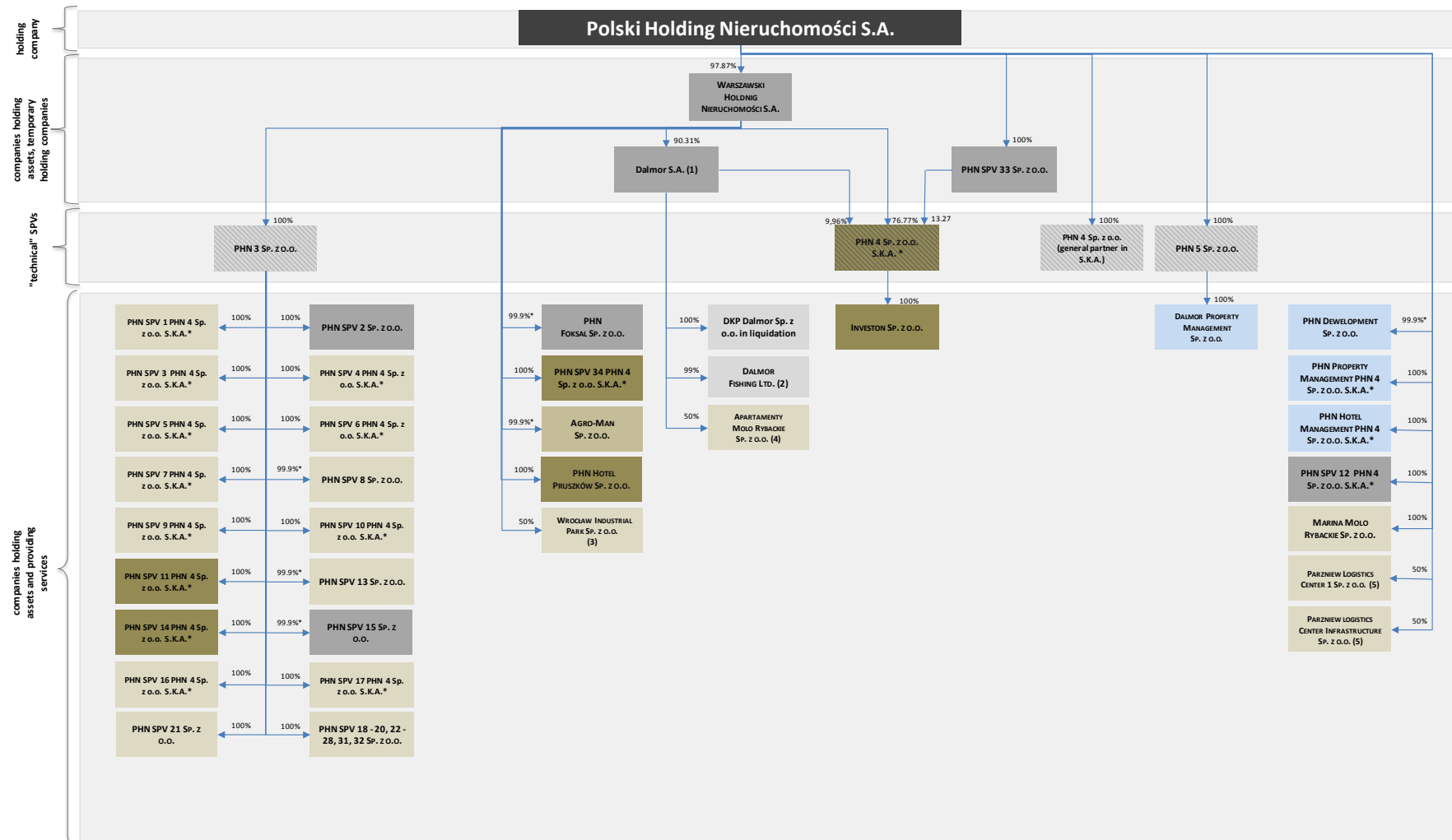
- Property development activities
- Opportunistic M&A transactions (sector-related)
- Property management for external partners
- Special projects

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

POLSKI HOLDING NIERUCHOMOŚCI S.A.
 Directors' Report on the Group's operations
 (All amounts are expressed in PLN million unless stated otherwise)

2. Group structure



*PHN 4 Sp. z o.o. - 1 share (in a limited liability company) or the general partner (in a partnership limited by shares)



- (1) share of PHN S.A. 2.78%
- (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%)

All the subsidiaries that belong to the Group are consolidated using the acquisition accounting method, and shares in jointly controlled entities are disclosed in the consolidated financial

statements using the equity method. All Group entities are presented below.

3. The Group's property portfolio

Fair value

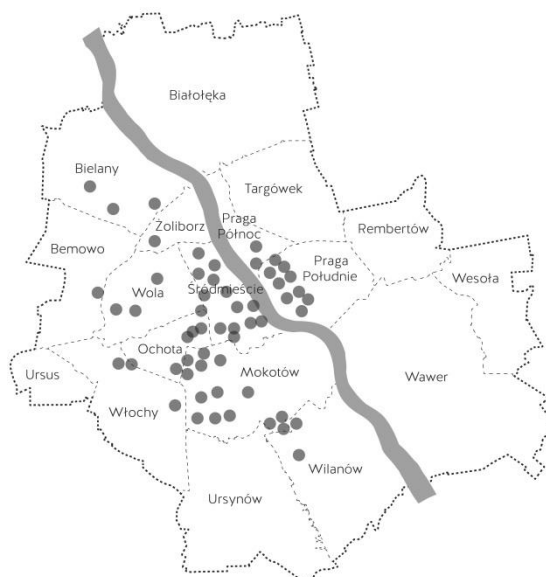
As at 31 March 2016, the Group's property portfolio comprised 140 properties separated for business purposes with the fair value of PLN 2,468.5 million, which were disclosed in the financial statements as assets. The portfolio comprised 14 properties with a fair value of PLN 155.2 million with unclear legal status (however, with a positive outlook) and two properties which were used for the purposes of joint ventures with a third party.

The Group also had 19 properties with unclear legal status with insufficient potential for a positive outcome for these properties to be disclosed in the financial statements as assets. Had they been free from legal defects, the fair value of those properties would have amounted to PLN 115.1 million.

Structure of the property portfolio from the perspective of planned activities

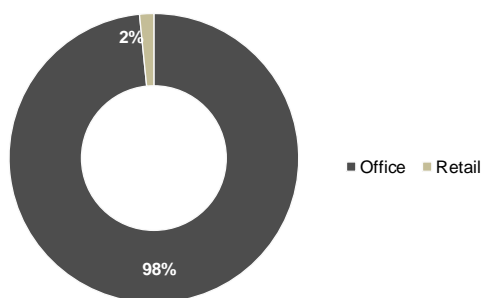
Properties remaining in the portfolio	18 properties with a fair value of PLN 844.0 million, recognized in the financial statements as investment properties with a fair value of PLN 814.4 million and as fixed assets of PLN 29.6 million (properties used for the Group's own needs)
Commercial projects	12 properties with a fair value of PLN 543.9 million, which the Group uses or plans to use for the purposes of commercial projects, disclosed in the financial statements as investment properties at fair value
Projects executed with external partner (JV)	Two properties with a fair value of PLN 27.8 million, disclosed in the financial statements indirectly as a component of interest in a joint venture
Properties held for sale	76 properties with a fair value of PLN 580.3 million, recognized in the financial statements as investment properties with a fair value of PLN 509.5 million, as assets classified as held for sale with a fair value of PLN 57.8 million, as fixed assets of PLN 4.1 million and as inventories of PLN 3.0 million
Residential projects	32 properties with a fair value of PLN 215.1 million, which are used or are planned to be used for the purposes of residential construction projects, including: <ul style="list-style-type: none"> ▪ four properties with completed projects with a fair value of PLN 12.7 million, including three with unsold apartments, disclosed in the financial statements under inventories in the amount of PLN 11.7 million ▪ 27 properties designated for potential projects with a fair value of PLN 200.9 million, disclosed in the financial statements under investment properties with a fair value of PLN 147.5 million, under fixed assets with a fair value of PLN 11.2 million, and under inventories with a fair value of PLN 47.4 million; this group consists of 7 independent projects, one of them comprising 21 buildings (treated for business purposes as separate properties) ▪ one property comprising road plots with a fair value of PLN 1.4 million, disclosed in the financial statements under inventories in the amount of PLN 0.1 million

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



As at 31 March 2016, the Group's property portfolio comprised GLA of 339.8 thousand m². In the period from 1 January to 31 March 2016, as a result of the demolition of buildings at ul. Prymasa Tysiąclecia (in connection with a development project carried out), the GLA held by the Group decreased.

Structure of properties remaining in the portfolio by current purpose
% total GLA



* excluding 19 real properties without regulated legal status

Lease result (NOI)

In the period from 1 January to 31 March 2016, the Group generated NOI of PLN 15.5 million, including: the portfolio properties segment: PLN 10.8 million; the commercial projects segment: PLN 1.3 million; the segment of properties held for sale: PLN 3.2 million; the residential projects segment: PLN 0.2

Acquisitions and disinvestments

On 30 March 2016, the Group purchased a property located in Gdańsk at ul. Grunwaldzka 409 (Alchemia II).

4. The Group's activities

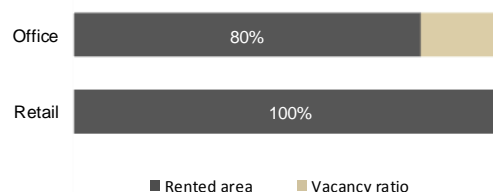
The Group is one of the biggest (with regard to the market value of its property portfolio) entities owning and managing commercial and residential real properties in Poland. In order to maximize the profit, the Group continues the restructuring of its property portfolio, including:

- ✓ Optimization of the usage of the properties intended to remain in the target portfolio;
- ✓ modernization and modification of some of the existing properties and development of some undeveloped plots of land;
- ✓ gradual sale of assets not related to the Group's target business profile, such as residential and less profitable commercial properties, as well as some land properties.

The vacancy ratio amounted to 25.0% (calculated as the share of unleased space in GLA less space designated for the Group's own use and permanently non-leaseable space, i.e. the space that is not leased by the Group for technical or legal reasons).

The gross leasable area of the properties remaining in the portfolio amounted to 141.2 thousand m², and the vacancy ratio amounted to 19.4%.

Lease ratio of properties remaining in the portfolio
% of space



million. The Group classifies 92 properties with a fair value of PLN 1,915.4 million as properties generating lease revenues (the property located in Gdańsk at ul. Grunwaldzka purchased on 30 March 2016 did not generate revenues in the period from 1 January to 31 March 2016).

In the period from 1 January to 31 March 2016, the Group sold a property located in Warsaw at ul. Filtrów and parts of three properties (Łężyca, Parzniew, Podchorążych). Moreover, until the date of this report, it sold a part of another property.

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

- ✓ lease of office and retail space, warehouse and logistic space, residential and other properties;
- ✓ development business - construction and sale of residential premises;
- ✓ hotel business - providing hotel and catering services.

4.1. Commercial space lease market

Lease services offered by the Group comprise:

- ✓ lease of office space;
- ✓ lease of retail space;
- ✓ lease of warehouse and logistic space;
- ✓ lease of residential and other space;
- ✓ additional services – lease of offices for starting business, lease of 'virtual offices', conference halls, advertising space (walls, facades 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 complexes and in the

4.2. Residential development market

The Group's operations also include construction and sale of residential properties. The Group is currently selling apartments on a housing estate located on the outskirts of Warsaw and is preparing a residential project on the property at ul. Prymasa

4.3. Hotel market

The Group conducts hotel activities in three properties: Hotel Zgoda, Hotel Wilanów and Hotel w Lipowym Przyładku. The

Shopping Centre at Bartycka 26 street in Warsaw. The Group's offer is addressed to small and medium entrepreneurs operating in 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 carriers. 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 buildings used as schools and preschool facilities.

Tysiąclecia. At the same time, it analyses potential residential construction projects in other locations.

hotel and catering services are provided to both legal and natural persons.

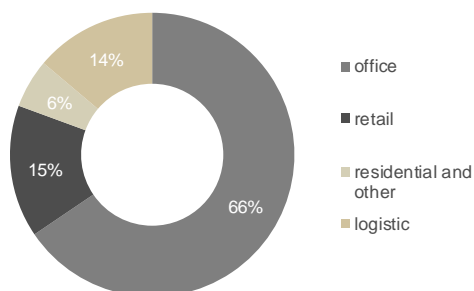
5. Markets and structure of customers and suppliers

Markets

Poland is the main market on which the Group operates. The Group has the strongest market position in Warsaw. The Group also operates in Poznań, Tricity, Wrocław and Łódź. The Group provides services to a wide range of institutional customers, companies, state institutions and individuals in the segment of lease and rental of properties.

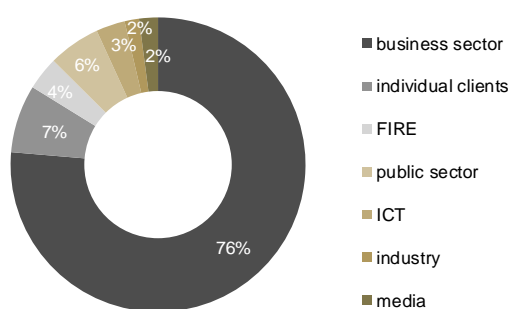
The structure of the Group's tenants is highly diversified; therefore, the Group is not exposed to any significant risk associated with a single tenant or a group of tenants. As at 31 March 2016, the representatives of the business services sector constituted the largest group of tenants.

Structure of the leased space
 % of leased area *



* excluding 19 properties without regulated legal status

Structure of tenants by industry
 % of the total number of tenants



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

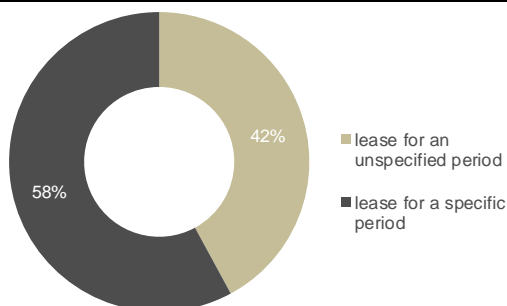
* excluding 19 properties without regulated legal status

Although new lease agreements are usually signed for limited periods, almost half of the GLA is still leased for an unlimited

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

Structure of the leased space according to the period of the agreement

% of GLA *



* excluding 19 properties without regulated legal status

In the 3 months ended 31 March 2016, the ten biggest tenants in terms of lease revenues comprised (in alphabetical order): the Military Property Agency (Agencja Mienia Wojskowego), ALSTOM Power Sp. z o.o., the Office of the Inspector General for Personal Data Protection (Biuro Generalnego Inspektora Ochrony Danych Osobowych), the Tax Chamber (Izba

Structure of customers and suppliers

In the 1st quarter of 2016, the Group mainly cooperated with the suppliers of the following services:

- ✓ construction (in relation to investment and development projects);
- ✓ repairs;
- ✓ provision of utilities;

6. Financial situation

In the 1st quarter of 2016 the real estate market was characterized by a high level of competition, large supply of new office space, growing pressure on rent decreases and flexible price policy. However, difficult market conditions did not have a significant effect on the Group's results.

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 goodwill amortization) amounted to PLN 10.7 million and it was PLN 9.4 million (47%) lower than in the previous quarter.

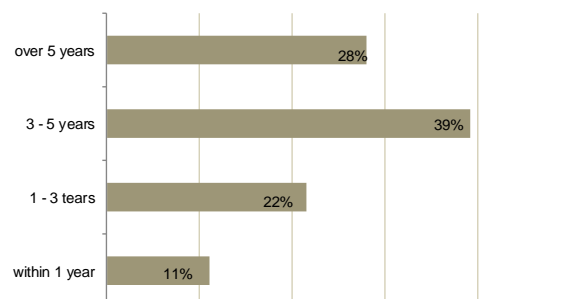
6.1. Main factors affecting the profit earned

The following major factors affected the financial and operating results of the Group in the 1st quarter of 2016 and will affect the results in the next quarter:

1. External (macroeconomic, legal, market, etc.) factors affecting the Group's development and barriers to its development, including:
 - ✓ the situation on the local real estate markets (competitiveness of other properties, supply of space on the market, flexible price policies, bonuses and contributions for tenants) which affects the level of vacancies in the Group's properties;

Structure of the leased space according to the lease period

% of the space leased for a specific period



Skarbowa) in Warsaw, Mars Polska Sp. z o.o., McFit Polska Sp. z o.o., Nordtechnik Sp. z o.o., Poczta Polska S.A., the Association Managing the Lycée Français de Varsovie (Stowarzyszenie Zarządzające Liceum Francuskim w Warszawie), Żabka Polska Sp. z o.o.

- ✓ advisory - legal, business, technical;
- ✓ property administration;
- ✓ cleaning;
- ✓ security.

Due to a large base of suppliers, the Group is not dependent on a single supplier.

Adjusted EBITDA (EBITDA adjusted for one-off expenses (the costs of the Group's privatization and restructuring, costs of severance pay for employees, the 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 9.5 million and it was PLN 0.3 million (3%) lower than in the previous period.

As at 31 March 2016, the Company employed 125 people.

- ✓ the costs of external financing, which depend on the level of interest rates.
2. Internal factors, depending on the Group's plans, execution of its goals etc., including:
 - ✓ disposal of properties (in the 1st quarter of 2016, the Group generated a profit from disposals of PLN 0.3 million);
 - ✓ the purchase of a profit-generating property (Alchemia II in Gdańsk);
 - ✓ modernization and alteration of some properties;
 - ✓ the level of costs of property maintenance;

- ✓ the level of administrative expenses;
- ✓ restructuring of the Group;
- ✓ employment costs and costs of external services.
- ✓ execution of new projects;
- ✓ corporate income tax.

6.2. Analysis of the consolidated statement of financial position

Investment properties constituted the main component of non-current assets. In the 3-month period ended 31 March 2016, their value increased by PLN 289.4 million due to:

- ✓ the purchase of a property at Al. Grunwaldzka 409 in Gdańsk (Alchemia II) with a value of PLN 258.0 million;
- ✓ incurring expenditure on commercial development projects (PLN 3.0 million), preparation of commercial development projects (PLN 0.2 million) and modernization of properties (PLN 2.8 million);
- ✓ settlement of space arrangement costs (PLN 0.8 million);
- ✓ reclassification of properties from non-current assets classified as held for sale to investment properties (PLN 23.0 million);
- ✓ change in the value of properties (PLN 3.2 million).

In the period of 3 months ended 31 March 2016, the value of property, plant and equipment decreased by PLN 0.3 million due to depreciation charges of PLN 0.3 million.

Deferred income tax assets increased by PLN 4.3 million in the 3 months ended 31 March 2016, mainly due to an increase in the asset recognized in respect of the difference between the tax value of the properties and liabilities and their carrying amount.

Current assets decreased by PLN 101.3 million in the period of 3 months ended 31 March 2016 mainly as a result of:

- ✓ a decrease in cash and cash equivalents of PLN 78.5 million;
- ✓ a decrease in the amounts due to the state budget of PLN 26.2 million;
- ✓ disposal of premises (PLN 4.2 million);
- ✓ incurring expenditure on the construction of development projects (PLN 0.9 million);
- ✓ an increase in the balance of trade receivables (PLN 4.3 million);
- ✓ an increase in the balance of prepayments of PLN 5.2 million, mainly due to the advance payment for the right to perpetual usufruct of land for the period of the second to the fourth quarter of 2016.

The amount of equity attributable to the equity holders of the parent company in the period of 3 months ended 31 March 2016 increased by PLN 9.1 million due to:

- ✓ generating a net profit (PLN 8.2 million);
- ✓ a change in the ownership structure (PLN 1.5 million);
- ✓ a decrease in the revaluation reserve (PLN 0.5 million);
- ✓ repurchase of shares from non-controlling shareholders (PLN 0.1 million).

The amount of non-current liabilities increased by PLN 199.4 million in the period of 3 months ended 31 March 2016 due to:

- ✓ an increase in debt resulting from bank loans (PLN 193.0 million);
- ✓ an increase in deferred tax liabilities (PLN 4.8 million);
- ✓ an increase in the amount of other non-current liabilities (PLN 1.6 million).

The amount of current liabilities decreased by PLN 39.1 million primarily due to:

- ✓ a decrease in the liabilities to the state budget in respect of VAT payable on the purchase of properties within the group (PLN 84.8 million);
- ✓ a decrease in the amount of advance payments for the purchase of investment properties (PLN 0.4 million);
- ✓ a decrease in capital expenditure commitments (PLN 3.0 million);
- ✓ a decrease in the amount of advance payments relating to property development business (PLN 1.2 million);
- ✓ a decrease in the amount of other current liabilities (PLN 2.0 million);
- ✓ an increase in debt resulting from bank loans (PLN 52.5 million);
- ✓ an increase in other current liabilities (PLN 5.2 million);
- ✓ an increase in deposits of tenants (PLN 2.8 million);
- ✓ an increase in the amount of current provisions (PLN 0.6 million).

6.3. Analysis of the consolidated statement of comprehensive income

In the 1st quarter of 2016, the Group generated a net profit of PLN 8.3 million, which represented an increase of PLN 25.4 million compared with the 4th quarter of 2015 mainly due to the net effect of the following factors:

- ✓ a decrease in the lease result of PLN 1.4 million, which was mainly due to the exit of tenants, lower rents and higher costs of property maintenance
- ✓ a decrease in the profit/loss on property development activities of PLN 3.3 million, which was mainly due to the sale of the last apartments in the completed Parzniew II project and one-off events that took place in the 4th quarter (reversal of the provision for guarantee repairs and damages in property development of PLN 2.9 million);
- ✓ a decrease in the profit/loss on other business activities of PLN 0.5 million, which was mainly due to the low season in the hotel business;
- ✓ a decrease in administrative and selling expenses, which was mainly due to the fact that the costs of wages and salaries were lower than in the 4th quarter of 2015;
- ✓ an increase in the fair value of properties (its effect on the financial result in the 1st quarter of 2016 was PLN 84.0

million higher than in the 4th quarter of 2015) and a decrease in the gain/loss on disposal of investment properties of PLN 6.3 million;

- ✓ a decrease in net other income/ expenses of PLN 4.7 million, which was mainly due to the fact that the effect of one-off events was PLN 3.7 million lower than in the 4th quarter of 2015;
- ✓ an increase in net finance income/ costs of PLN 1.2 million, which was mainly due to the valuation of financial derivatives;
- ✓ a decrease in the effect of corporate income tax of PLN 49.7 million, which was mainly due to the reversal of the deferred tax provision in the 4th quarter of 2015 in connection with the allocation of properties to special vehicles (in the amount of PLN 36.0 million).

	1Q 2016	4Q 2015	1Q 2015
EBITDA on continuing operations			
Sales	40.6	44.5	37.4
Operating expenses	(23.9)	(22.6)	(22.2)
Gross profit/(loss) on sales	16.7	21.9	15.2
Administrative and selling expenses	(7.2)	(13.1)	(7.5)
<i>including one - off costs (Group privatization and restructuring)</i>	<i>0.1</i>	<i>3.0</i>	<i>0.1</i>
<i>Administrative and selling expenses, excluding one - off costs (Group privatization and restructuring)</i>	<i>(7.1)</i>	<i>(10.1)</i>	<i>(7.4)</i>
Net profit/loss on sales	9.5	8.8	7.7
Change in the fair value of investment properties and gain/loss on disposal	2.8	(74.9)	(3.8)
Other revenues	2.7	12.6	10.2
Other costs	(1.8)	(7.0)	(3.2)
Operating profit/ (loss)	13.2	(60.5)	10.9
Change in the fair value of investment properties and gain/loss on disposal	(2.8)	74.9	3.8
Amortization and depreciation	0.3	0.3	0.2
Amortization of goodwill	0.0	4.0	0.0
Impairment of property, plant and equipment (properties)	0.0	1.4	0.0
EBITDA	10.7	20.1	14.9
Provision for guarantee repairs and damages in property development	0.0	(2.9)	(0.2)
One - off costs (Group privatization and restructuring)	0.1	3.0	0.1
Costs of severance payments	0.0	0.5	0.2
Refund of tax on civil law transactions	0.0	0.0	(8.0)
Change in the provision for claims relating to previous years	(1.3)	(10.9)	(1.1)
Adjusted EBITDA	9.5	9.8	5.9

An analysis of the consolidated statement of comprehensive income by segments is presented below

	1Q 2016	4Q 2015	1Q 2015
Profit/loss on lease			
Sales	33.6	34.5	30.3
Operating expenses	(18.2)	(17.7)	(16.6)
Gross profit/(loss) on sales	15.4	16.8	13.7
Administrative and selling expenses	(5.2)	(9.0)	(5.8)
<i>including one - off costs (Group privatization and restructuring)</i>	0.1	3.0	0.1
<i>Administrative and selling expenses, excluding one - off costs (Group privatization and restructuring)</i>	(5.1)	(6.0)	(5.7)
Net profit/loss on sales	10.2	7.8	7.9
Change in the fair value of investment properties and gain/loss on disposal	2.8	(74.9)	(3.8)
Other revenues	2.7	12.6	10.1
Other costs	(1.8)	(5.9)	(3.2)
Operating profit/ (loss)	13.9	(60.4)	11.0
Change in the fair value of investment properties and gain/loss on disposal	(2.8)	74.9	3.8
Amortization and depreciation	0.2	0.3	0.2
Amortization of goodwill	0.0	4.0	0.0
Impairment of property, plant and equipment (properties)	0.0	1.0	0.0
EBITDA	11.3	19.8	15.0
One - off costs (Group privatization and restructuring)	0.1	3.0	0.1
Costs of severance payments	0.0	0.0	0.2
Refund of tax on civil law transactions	0.0	0.0	(8.0)
Change in the provision for claims relating to previous years	(1.3)	(10.9)	(1.1)
Adjusted EBITDA	10.1	11.9	6.2

The Group's revenues in the lease segment decreased by PLN 0.9 million (2.6%) in the first quarter of 2016 compared with the previous quarter due to exit of tenants and lower rents. The costs of property maintenance incurred by the Group were PLN 0.5 million higher q/q, mainly due to the increase in perpetual usufruct fees. Due to a decrease in administrative and selling expenses of PLN 3.8 million, the net profit/ (loss) on sales increased by PLN 2.4 million q/q and PLN 2.3 million y/y.

EBITDA in the lease segment amounted to PLN 11.3 million and it decreased by PLN 8.5 million q/q and PLN 3.7 million y/y. Adjusted EBITDA (EBITDA adjusted for one-off expenses, costs of severance pay for employees and the change in the provision for claims relating to prior years) amounted to PLN 10.1 million and it was PLN 1.8 million lower q/q and PLN 3.9 million higher y/y.

	1Q 2016	4Q 2015	1Q 2015
Profit/loss on property development			
Sales	5.4	8.0	7.1
Operating expenses	(4.2)	(3.5)	(5.5)
Gross profit/(loss) on sales	1.2	4.5	1.6
Administrative and selling expenses	(0.9)	(1.9)	(0.8)
Net profit/loss on sales	0.3	2.6	0.8
Other revenues	0.0	0.0	0.1
Operating profit/ (loss)	0.3	2.6	0.9
EBITDA	0.3	2.6	0.9
Provision for guarantee repairs and damages in property development	0.0	(2.9)	(0.2)
Adjusted EBITDA	0.3	(0.3)	0.7

Gross profit from sales in the property development segment in the 1st quarter of 2016 amounted to PLN 1.2 million and it was PLN 3.3 million lower q/q and PLN 0.4 higher y/y. In the 1st quarter of 2016, adjusted EBITDA was equal to EBITDA and it amounted to PLN 0.3 million. It increased by PLN 0.6 million q/q and decreased by PLN 0.4 million y/y. Lower revenues and costs on sales adjusted for one-off events are mainly a result of the sale of the last units in the completed project Parzniew II.

As at 31 March 2016, the Group had 29 completed units, including 20 units for which contracts had been signed. In the 1st quarter of 2016, the Group concluded 14 preliminary agreements for the sale of units (4Q 2015: 14 units, 1Q 2015: 21 units).

	1Q 2016	4Q 2015	1Q 2015
Profit/loss on other business activities			
Sales	1.6	2.0	0.0
Operating expenses	(1.5)	(1.4)	(0.1)
Gross profit/(loss) on sales	0.1	0.6	(0.1)
Net profit/loss on sales	0.1	0.6	(0.1)
Other costs	0.0	(0.4)	0.0
Operating profit/ (loss)	0.1	0.2	(0.1)
Amortization and depreciation	0.1	0.0	0.0
Impairment of property, plant and equipment (properties)	0.0	0.4	0.0
EBITDA	0.2	0.6	(0.1)
Adjusted EBITDA	0.2	0.6	(0.1)

Other business activities comprise revenues and costs from hotel business and management services provided to jointly controlled entities.

	1Q 2016	4Q 2015	1Q 2015
Unallocated items of the consolidated statement of comprehensive income			
Administrative and selling expenses	(1.1)	(2.2)	(0.9)
Net profit/loss on sales	(1.1)	(2.2)	(0.9)
Other costs	0.0	(0.7)	0.0
Operating profit/ (loss)	(1.1)	(2.9)	(0.9)
EBITDA	(1.1)	(2.9)	(0.9)
Costs of severance payments	0.0	0.5	0.0
Adjusted EBITDA	(1.1)	(2.4)	(0.9)

Except for the described results of operating segments, the Group's operating profit/loss for the analysed period was affected by the administrative expenses of the parent company,

which acted as the holding company. From the business perspective, such costs are not allocated to operating segments.

6.4. Analysis of the consolidated statement of cash flows

In the 1st quarter of 2016, the Group generated negative net cash flow from operating activities in the amount of PLN 56.7 million, resulting from:

- ✓ generating positive adjusted EBITDA in the amount of PLN 9.5 million;
- ✓ payment of VAT of PLN 84.8 million on property sale transactions between subsidiaries;
- ✓ payment of VAT of PLN 58.5 million on the purchase of the Alchemia II property;
- ✓ advance payment of land perpetual usufruct fees for the period of the 2nd to 4th quarter of 2016 of PLN 7.3 million;
- ✓ payment of current income tax in the amount of PLN 1.3 million;
- ✓ one-off expenses amounting to PLN 0.1 million relating to restructuring and reorganization;
- ✓ receipt of a VAT refund of PLN 78.1 million on property sale transactions between subsidiaries;
- ✓ generating positive cash flows from property development of PLN 2.8 million, mainly as a result of a decrease in inventories and receivables;

- ✓ an increase in other working capital of PLN 4.9 million.

Negative net cash flows generated in the 1st quarter of 2016 from investing activities of PLN 263.9 million resulted from the purchase of Alchemia II for PLN 258.0 million, capital expenditure incurred on investment properties of PLN 9.9 million (partly offset with proceeds from disposal of investment properties of PLN 3.7 million and interest received on bank deposits of PLN 0.3 million).

In the first quarter of 2016, the Group generated positive cash flows from financing activities of PLN 242.1 million, resulting from proceeds from bank loans of PLN 248.9 million (including a loan for the purchase of Alchemia II in the amount of PLN 237.2 million) partly offset with repayment of liabilities in respect of a bank loan of PLN 6.6 million, repayment of financial liabilities resulting from car fleet lease of PLN 0.1 million, and repurchase of shares in the amount of PLN 0.1 million.

7. EPRA performance measures

EPRA earnings*

The EPRA earnings ratio provides information, relevant from the point of view of the shareholders, about operating activity generated by the properties portfolio held by the company.

	3 months ended	
	31 March 2016	31 March 2015
Net profit/(loss) of the lease segment*	9.5	13.1
Adjustments	(2.2)	3.1
<i>Change in the fair value of investment properties and gain/loss on disposal</i>	(2.8)	3.8
<i>Deferred tax associated with the above adjustments</i>	0.5	(0.7)
Net profit/(loss) of the lease segment according to EPRA	7.3	16.2
Adjustments	(1.4)	(9.4)
<i>One - off costs (Group privatization and restructuring)</i>	(0.1)	(0.1)
<i>Severance payments</i>	0.0	0.2
<i>Change in provisions for claims relating to previous years</i>	(1.3)	(1.1)
<i>Interest on free cash</i>	(0.3)	(0.1)
<i>Refund of tax on civil law transactions</i>	0.0	(8.0)
<i>Interest on tax on civil law transactions paid</i>	0.0	(0.6)
<i>Current and deferred tax associated with the above adjustments</i>	0.3	0.3
Adjusted net profit/(loss) of the lease segment according to EPRA	5.9	6.8

* Profit/loss on operating activities of the lease segment in Q1 2016: PLN 13.9 million; Q1 2015: PLN 11.0 million after earnings of the lease segment from financing activities in Q1 2016: PLN -3.3 million; Q1 2015:

PLN 0.7 million, income tax for Q1 2016: PLN -1.3 million; Q1 2015: PLN 1.2 million and share in profits of associates and jointly controlled entities in Q1 2015: PLN 0.2 million; Q1 2015: PLN 0.2 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

	2016*	2015
Investment properties as per the statement of financial position	2 304.8	2 015,4
Land and commercial development projects in progress	(648.8)	(395,9)
Investment properties generating lease revenues	1 656.0	1 619,5
Lease earnings as per the statement of comprehensive income	61.6	60,1
Adjustments	(9.2)	(5,9)
<i>Earnings generated by land and commercial development projects in progress</i>	(0.5)	(0,2)
<i>Earnings generated by properties with unclear legal status</i>	0.3	(0,1)
<i>Earnings generated by properties classified as held for sale, sold, reclassified to inventories and property, plant and equipment</i>	(0.7)	(2,9)
<i>Elimination of deferred income</i>	(11.5)	(5,5)
<i>Fit out elimination</i>	3.2	2,8
EPRA earnings from lease activities	52.4	54,2
Estimated transaction costs (1%)	16.6	16,2
EPRA NIY	3.1%	3,4%

*Income statement items annualized based on data for Q1 2016 multiplied by 4.

EPRA NAV i EPRA NNNAV

EPRA NAV (net asset value) presents the fair value of net assets in a 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 i NNNAV

	31 March 2016	31 December 2015
Net assets attributable to equity holders of the parent company	1 959.0	1 949.8
<i>Long-term deferred income tax provision</i>	25.2	20.4
EPRA NAV	1 984.2	1 970.2
Difference between the book value and the fair value of net assets	6.0	6.9
EPRA NNNAV	1 990.2	1 977.1

*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 created 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.

8. Operating and investing activities

The Group executes development projects to obtain high class assets that will provide a stable source of revenues in the long term.

In accordance with its strategy, the Group also carries out development projects for sale in the residential sector.

Key development projects executed by the Group

<p>1. Completed projects</p> <p>Domaniewska Office HUB (Warsaw)</p> <p>As at the end of the 1st quarter of 2016, the Domaniewska Office Hub building was leased in approx. 72%. The building's commercialization is currently coming to completion and negotiations with potential tenants have reached an advanced stage.</p>	<p>2. Pending projects</p> <p>Wrocław Industrial Park (Wrocław)</p> <p>As part of the Wrocław Industrial Park project (JV with SEGRO), a modern warehouse and logistic facility is being built on a part of investment land located at Bierutowska street. Facilities with a planned usable area of approx. 40,000 m² are being built on the plot of 10.6 ha. To date, the first stage of approx. 19,500 m² was completed. For this stage, lease agreements for approx. 16,700 m² have been signed. Infrastructure is being prepared for the subsequent stages of the investment project.</p>
<p>3. Pending projects</p> <p>Parzniew Logistic Center (Parzniew near Pruszków)</p> <p>The Polski Holding Nieruchomości S.A. Group is carrying out a warehouse development project in cooperation with a JV partner - the American company Hillwood, which is one of the leaders of the international market of logistic properties. The target GLA of the logistic park in Parzniew near Pruszków is approx. 95,000 m² (to be built in a few stages). The construction permit covers GLA of approx. 56,000 m².</p>	<p>4. Pending projects</p> <p>Molo Rybackie (Gdynia)</p> <p>In 2014, a JV agreement was signed with mLocum for the execution of the first stage of the residential project Yacht Park in the Molo Rybackie area in Gdynia. Design work for the project consisting of 6 residential buildings with the usable space of approx. 10,000 m² is in progress. In the 1st quarter of 2016, the Group applied for the permit to develop Molo Rybackie. Additionally, work has been commenced on the optimum development concept for the subsequent residential and office stage of the project and for the yacht marina adjacent to the Yacht Park project.</p>
<p>5. Pending projects</p> <p>Prymasa Tysiąclecia (Warsaw)</p> <p>The project assumes creating a friendly, low-density urban space with access to various service outlets located within the residential complex. The agreement for design work was signed in July 2015 with the studio "ATELIER 7". In accordance with the residential project concept, the Group plans to build 435 modern apartments with the usable area of 22,500 m², mostly facing two sides of the building, with balconies or gardens, and 1,500 m² of service space. The preliminary office building concept provides for GLA of 14,900 m². An application was filed for the construction permit for the 1st stage of the residential part of the project. Demolition work on the site is currently in progress.</p>	<p>6. Projects under preparation</p> <p>Stawki 2 (Intraco City) (Warsaw)</p> <p>The architectural concept for the project was approved in 2015. An A class office facility with GLA of approx. 10,000 m² is planned to be built in place of the existing parking lot in front of the Intraco office building.</p>

7. Projects under preparation

Świętokrzyska 36 (City Tower) (Warsaw)

In place of the present developed property at ul. Świętokrzyska 36, on land of 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 of the facility with the station can be designed. An application for the construction permit was filed in the 3rd quarter of 2015 and the final permission for demolition of the existing building was obtained. The Group plans to obtain the construction permit in the 3rd quarter of 2016.

9. Projects under preparation

Lewandów Retail Hub (Warsaw)

The Group plans to build office and retail facilities with total GLA of approx. 25,000 m² on a part of the plots with a total area of approx. 25.4 ha. At the same time, the Group is negotiating the sale/lease of the remaining part of the property to retail chains.

11. Projects under preparation

Instalatorów 7C (Warsaw)

The initial utility connection conditions were obtained. An agreement for preparing design documentation was signed with the 22 Architekci studio. The planning permission was obtained for apartment buildings with a usable area of approx. 4,000 m².

13. Planned projects

Retkinia (Łódź)

Construction work was completed and the first grocery supermarket was handed over to the tenant in the first half of 2015. In accordance with the Optimum Land Development Study, which was prepared for the whole plot, residential facilities with a total GLA of approx. 280,000 m² and commercial facilities with a total area of approx. 45,000 m² will be built. In the meantime, pre-development work is carried out (including the installation of cabling for the overhead high voltage power line) in order to increase the project's efficiency through optimum utilization of the property area.

15. Planned projects

Wilanów (Warsaw)

The project consists of the construction of a modern housing estate in place of an existing housing estate from the 1980s. The Optimum Land Development Study was prepared to facilitate replacement of the existing buildings with new ones. The analyses show that approx. 859 modern apartments with a total area of 46,400 m² and a shopping mall with an area of 5,700 m² can be built. The Group applied to the Mayor of Warsaw for a change of the local zoning plan for the area in question.

8. Projects under preparation

Wilanowska (Warsaw)

On a plot of approx. 1.29 ha at Al. Wilanowska 372 the Group plans to build two commercial facilities with the combined GLA of approx. 23,000 m². The Group signed a franchising agreement with Global Hospitality Licensing ("Marriott International"). The hotel part of the project will combine two brands of the international Marriott International hotel brand - the designer concept MOXY and the apartment brand (RESIDENCE INN). The opportunities for optimum use of the property's potential are currently being analysed.

10. Projects under preparation

Lewandów (housing estate) (Warsaw)

On the property "residential Lewandów" in the Białoleka district of Warsaw (with an area of approx. 39,600 m²) the Group plans to build a housing estate consisting of apartment buildings with a total usable space of approx. 32,000 m² (approx. 530 apartments) in three stages. The tender procedure has been completed and the architectural studio was selected for the project. Preparations for infrastructural projects that must be completed to enable the execution of construction projects on the property are pending.

12. Projects under preparation

Warehouse project

In 2015, the Group completed the process of obtaining the partner for development of 7 properties with warehouse potential and the total area of approx. 250 ha held in the Group's portfolio. In 2016, the Group plans to prepare those properties for the execution of the initial stages of warehouse development projects.

14. Planned projects

Bartycka (Warsaw)

On the property with an area of 7.6 ha the Group plans to build a residential and commercial complex with an estimated area of approx. 60,000 m². The Optimum Land Development Study was prepared for the property. At the same time, the Polski Holding Nieruchomości S.A. Group is talking to potential tenants about commercialization of the retail part of the Bartycka project.

16. Planned projects

Jana Pawła II 34 (Warsaw)

A contest for a preliminary architectural concept for a residential building with a service function was carried out. The winning design proposes the construction of 97 flats with a total area of approx. 4,000 m².

9. Information on related parties

9.1. Material transactions concluded by the Parent Company or its subsidiaries with related entities on a non-arm's length basis

In the first 3 months of 2016 and in 2015, the Group did not conclude any material transactions with related entities on a non-arm's length basis.

9.2. Transactions with members of the Management and Supervisory Boards of the Parent Company, their spouses, siblings, ascendants, descendants or other relatives

In the first 3 months of 2016 and in 2015, 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 March 2016 and 31 December 2015 no loans were granted by Group companies to the Management Board and Supervisory Board members and their relatives.

10. Information on material proceedings before courts, courts of arbitration or administrative authorities

As at 31 March 2016 and as at the date of preparation of this report, there were no pending proceedings against Group companies before a court, a court of arbitration or a public administration authority, whose individual or cumulative value

In the first 3 months of 2016, the Group did not enter into any significant transactions with the Management Board and Supervisory Board members or their relatives.

would be equal to or higher than 10% of the parent company's equity.

11. Other information

11.1. Dividends

In the Current Report no. 11/2016 of 10 May 2016, the Management Board presented its recommendation with respect to distribution of the net profit of PHN S.A. for the year ended 31 December 2015 of PLN 48,481,893.58. The Management Board recommended to:

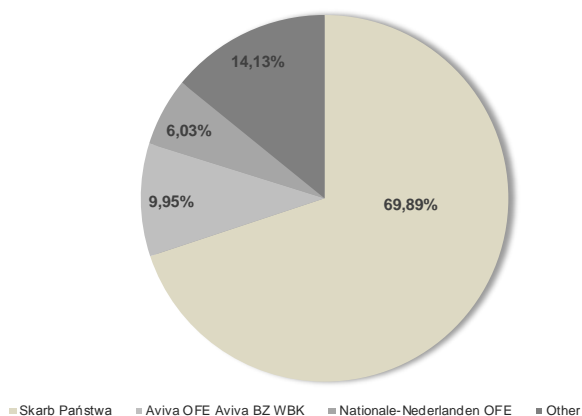
- ✓ earmark the amount of PLN 19,623,553.74 for the payment of dividend to the shareholders in the amount of PLN 0.42 per share;
- ✓ transfer the amount of PLN 28,858,339.84 to the supplementary capital.

Moreover, the Management Board proposed to set the dividend record date on 17 August 2016 and the dividend payment date on 24 August 2016.

The final decision regarding distribution of the net profit for the year ended 31 December 2015 will be made by the Annual General Shareholders' Meeting of PHN S.A., which had not been convened yet as at the date of this report.

11.2. Shareholders holding (directly or indirectly through subsidiaries) at least 5% of the total number of votes at the General Shareholders' Meeting

Shareholding structure
as at the date of this and previous report



11.3. Shares of the parent company held by Management Board and Supervisory Board members

According to the confirmations received, Management and Supervisory Board members did not hold any shares of the parent company or the subsidiaries as at 6 May 2016. In the period from 11 March 2016 to 6 May 2016, the number of shares of Polski Holding Nieruchomości S.A and its subsidiaries

held by members of the Management and Supervisory Board did not change.

11.4. Information on credit and other guarantees granted by the Company or its subsidiaries, jointly to one entity or to its subsidiary, if the total value of the existing guarantees represents the equivalent of at least 10% of the Company's equity.

In order to secure repayment of the liabilities resulting from the loan agreement signed in connection with the purchase of the property at Al. Grunwaldzka 409 in Gdańsk (Alchemia II) and in order to ensure proper performance of the said agreement, the

Group entities established security for Bank ING Bank Śląski S.A., which is described in note 34 to the interim condensed consolidated financial statements for the 3 months ended 31 March 2016.

11.5. The Management Board's position concerning the realization of previously published forecasts of the results for the current year

The Group did not publish any forecasts of its results.

**QUARTERLY FINANCIAL INFORMATION
OF POLSKI HOLDING NIERUCHOMOŚCI S.A.**

FOR THE 3-MONTH PERIOD ENDED

31 MARCH 2016



**POLSKI HOLDING
NIERUCHOMOŚCI S.A.**

C. Quarterly financial information

Separate statement of financial position as at 31 March 2016

	31 March 2016	31 December 2015
ASSETS		
Non-current assets		
Property, plant and equipment	0.9	1.0
Intangible assets	0.1	0.1
Deferred tax assets	0.5	0.6
Investment in subsidiaries	1 669.4	1 661.2
Other long-term financial assets	245.4	242.3
Total non-current assets	1 916.3	1 905.2
Current assets		
Trade receivables and other assets	5.7	7.8
Cash and cash equivalents	4.5	3.6
Total current assets	10.2	11.4
Total assets	1 926.5	1 916.6
Current liabilities		
Trade and other payables	(5.5)	(6.3)
Short-term debt	(0.4)	(0.5)
Short-term provisions	(0.5)	(0.5)
Total current liabilities	(6.4)	(7.3)
Non-current liabilities		
Non-current debt	(0.1)	(0.1)
Deferred-tax liability	(1.5)	(1.2)
Non-current provisions	(0.3)	(0.3)
Total non-current liabilities	(1.9)	(1.6)
Total liabilities	(8.3)	(8.9)
Net assets	1 918.2	1 907.7
Equity		
Issued capital	46.7	46.7
Share premium	1 751.9	1 751.9
Other reserve	60.6	60.6
Retained earnings	58.9	48.5
Total equity	0.1	0.0
Total liabilities	1 918.2	1 907.7

**Statement of comprehensive income
 for the period ended 31 March 2016**

	3 months ended	
	31 March 2016	31 March 2015
Revenue from core operating activity	7.1	6.1
Cost of core operating activity	(6.4)	(4.8)
Change in value of shares in subsidiaries	8.1	13.5
Core operating activity result	8.8	14.8
Administrative and sales expenses	(1.1)	(0.9)
Profit on operating activities	7.7	13.9
Finance income	3.1	2.5
Finance costs	(0.0)	(0.3)
Net profit from financing activities	3.1	2.2
Profit before tax	10.8	16.1
Income tax expense	(0.4)	(0.6)
Net profit	10.4	15.5
Other comprehensive income		
Total comprehensive income	10.4	15.5
Basic and diluted net earnings per share	0.22 PLN	0.33 PLN

**Statement of changes in equity
 for the period ended 31 March 2016**

	Issued capital	Share premium	Other reserve	Retained earnings	Other capital	Total
As at 1 January 2016	46.7	1 751.9	60.6	48.5		1 907.7
Net profit for the period				10.4		10.4
Total comprehensive income for the period				10.4		10.4
Share issue					0.1	0.1
As at 31 March 2016	46.7	1 751.9	60.6	58.9	0.1	1 918.2
As at 1 January 2015	46.5	1 746.3	0.5	120.8		1 914.1
Net profit for the period				15.5		15.5
Total comprehensive income for the period				15.5		15.5
Share issue					2.0	2.0
As at 31 March 2015	46.5	1 746.3	0.5	136.3	2.0	1 931.6

**Statement of cash flows
 for the period ended 31 March 2016**

	3 months ended	
	31 March 2016	31 March 2016
Cash flow from operating activities		
Profit before tax	10.8	16.1
Adjustments to cash flow from operating activities	(9.8)	(16.8)
Depreciation and amortization	0.1	0.0
Change in value of shares in subsidiaries	(8.1)	(13.5)
Interest income from investing activities	(3.1)	(2.5)
Borrowing costs	0.0	0.3
Change in working capital	1.3	(1.1)
Net cash flow from operating activities	1.0	(0.7)
Cash flow from investing activities		
Total inflow	29.8	127.4
Redemption of shares in subsidiaries	0.0	127.4
Financial instruments	29.8	0.0
Total outflow	(29.8)	(2.3)
Loans	(0.2)	(2.3)
Financial instruments	(29.6)	0.0
Net cash flow from investing activities	0.0	125.1
Cash flow from financing activities		
Total inflow	0.0	0.0
Total outflow	(0.1)	(119.4)
Loans	0.0	(119.4)
Finance lease payments	(0.1)	0.0
Net cash flow from financing activities	(0.1)	(119.4)
Total net cash flow	0.9	5.0
Change in cash and cash equivalents	0.9	5.0
Cash and cash equivalents at the beginning of the period	3.6	0.2
Cash and cash equivalents at the end of the period	4.5	5.2

This quarterly report was approved by the Management Board of the Parent Company on 12 May 2016.

Piotr Staroń
 Member of the Management Board
 in charge of Finance

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

Maciej Jankiewicz
 President of the Management Board