

Prestigious addresses on the commercial map of Warsaw



POLSKI HOLDING
NIERUCHOMOŚCI S.A.

***Strategy update by Polski Holding Nieruchomości S.A.
„Creating value”***

Presentation
Warsaw, October 2014



Agenda

- 1) **KEY ASPECTS OF PHN's NEW STRATEGY**
- 2) OUR PROPERTIES
- 3) COMPLETED RESTRUCTURING
- 4) NEW STRATEGY – EXPECTED RESULTS

The strategy of Polski Holding Nieruchomości S.A. (“PHN” or “the Group”)



▶ THE PHN VISION

- ▶ To increase the value of our net assets by almost 75% by 2023, over half of which would be paid off as a dividend
- ▶ Our portfolio quality as well as the efficiency of our asset management will serve as a base for the capital gain for our shareholders



▶ THE PHN MISSION

We create PHN’s value through:

- ▶ The optimal use of our properties to serve **our clients’** needs
- ▶ Change in the structure of our investment portfolio that will lead to high capital gains to **our shareholders**
- ▶ Commitment and professionalism of **our employees**
- ▶ Consideration for **our environment**

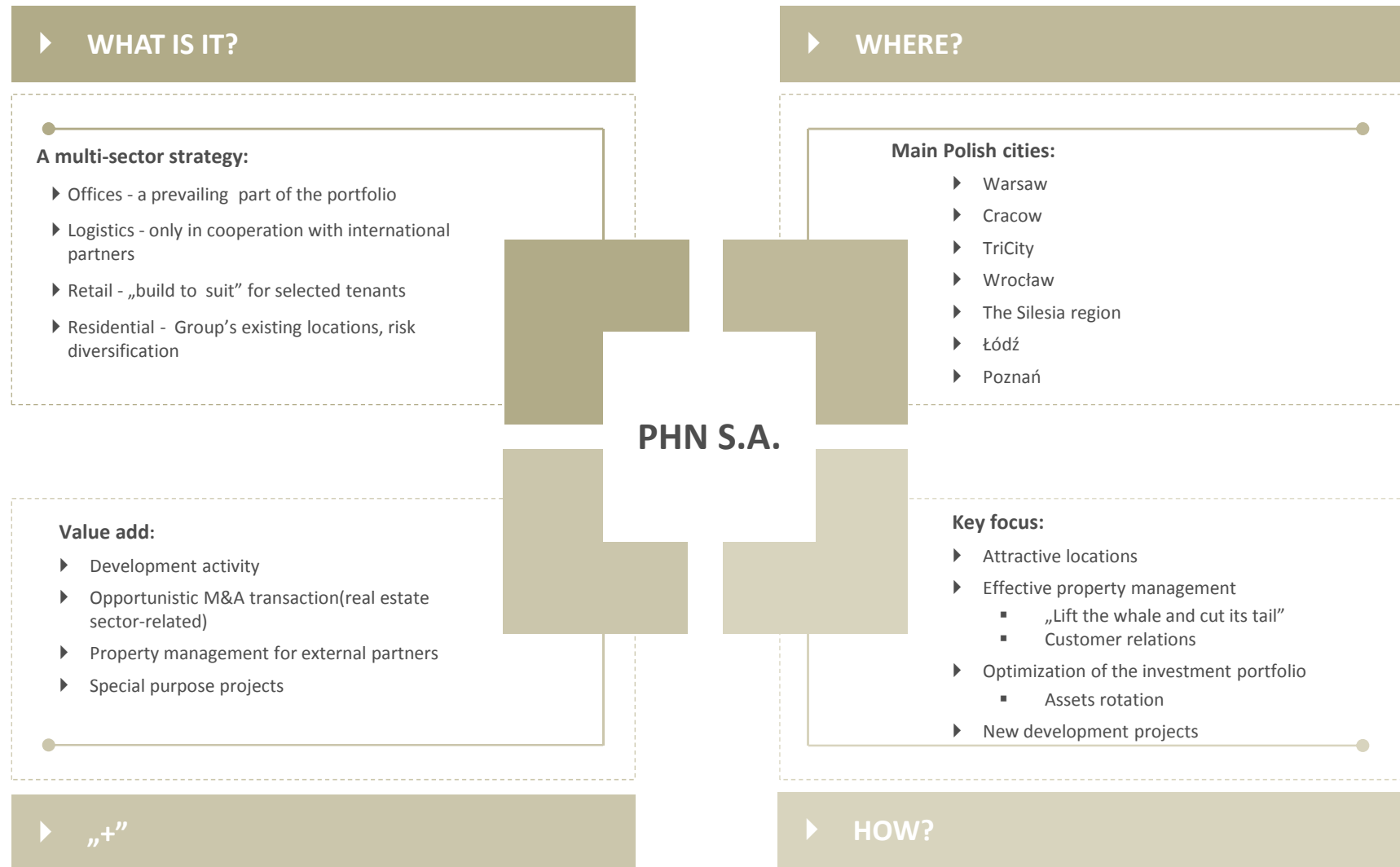
We will complete the corporate restructuring process **by the end of 2015** and finish the transformation of our investment portfolio **by the end of 2023**



▶ MODIFICATION OF THE PHN STRATEGY

- ▶ Continuation of execution of the **key strategic goals set in 2012 (ahead of the IPO on the Warsaw Stock Exchange)**
- ▶ **Identification of new opportunities and possible threats** caused by changes in the Polish real estate market
- ▶ Need to **intensify the process of building the added value** of PHN in comparison to its peers

The strategy of Polski Holding Nieruchomości





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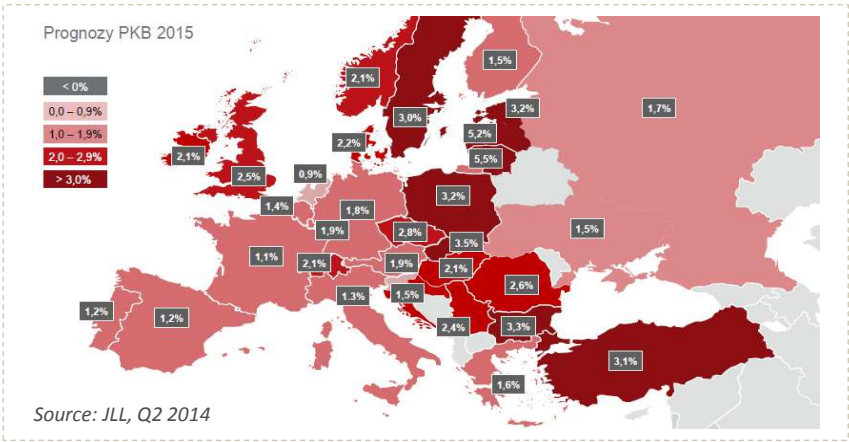
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► **STRONG MACROECONOMIC STANDING**

- Optimistic GDP forecasts: 3.2% in 2014 and 3.6% in 2015
- The lowest unemployment rate since 2012 – 12.1%
- **Continuous development of the transportation infrastructure**
- **Growing GDP purchasing power/capita** – in 2014 at **66% of the EU average** compared to 50% in 2004
- **Poland remains the leading beneficiary of the EU funds** – expected inflow of EUR 73 bln between 2014 and 2020

► INTEREST OF INVESTORS AND LARGE TENANTS

- The best year in history for FDI (foreign direct investment) – EUR 1.8 bln in 1Q2014 alone
- **Enlargement of the special economic zones (SSE)** - 14 SSE offering tax incentives extended till 2026
- **Over 400 service centers** – the BPO/SSC/R&D/IT sector growing by 20-25% annually (ie. Google, HP, CSFB, Coca Cola, Lufthansa, GE, Cisco, E&Y, Samsung, Motorola, Citibank centers present in Poland)
- 8 main Polish cities with already **7 m sqm of modern office space**: 4.3 m sqm in Warsaw, and 2.7 m sqm in Krakow, Wroclaw, TriCity, Lodz, Poznan, Katowice and Szczecin all together



- **E&Y Report:** *Building Confidence: European Real Estate Assets Investment Trend Indicator 2014* – 1st place in Europe in the „market prospects” category (Poland seen by 67% interviewees as attractive or very attractive)
- **FDI Intelligence:** *FDI Report 2013* – 6th place in Europe in the top countries for foreign investment ranking
- **Bloomberg:** *Bloomberg Rankings 2013* – Poland as the best country for business in the CEE and 20th in the world (up 2 places since 2012)
- **Deloitte:** *Global Manufacturing Competitiveness Index 2013* – Poland second in Europe

The Polish real estate investment market and its cyclicity

► TRENDS IN THE POLISH REAL ESTATE MARKET

- **Record high 1H2014** – value of 28 commercial investment transactions amounted to EUR 1,4 bln (the best result since 2007)
- Growing interest in the **outside of Warsaw locations**, as well as in the office and logistic sectors
- Even though most transactions were in the „core” segment, app. EUR 200 m was spent on the „value add” product
- Prime yields at 6.25% (offices), 5.75% (retail), 7.50% (warehouses)
- **The residential market** has been enjoying a few positive quarters marked by a larger volume of transactions mostly thanks to the record-low interest rates, low inflation growth and an increased price level/sqm in the government sponsored MDM program („Flats for young ”)
- **A dynamic land sale market in many main Polish cities** (many large scale acquisitions in the residential sector)
- At the same time, given an increased wave of development in smaller markets and rising competition between existing projects, a **growing division between performing and non-performing assets** (especially in the retail and logistic sector)

► MARKET SEGMENTS CYCLICALITY

- After years of retail domination in terms of completed commercial transactions, investors **have now paid more attention to the office and logistics segments** (partly thanks to an improving infrastructure)
- Only in the last 3-5 years office investors showed interest in assets located in regional cities (mostly thanks a dynamic growth of the BPO/SSC/IT sectors that resulted in long term leases to international tenants)

► SEGMENTS CYCLICALITY | VALUE OF COMMERCIAL INVESTMENT IN POLAND [EUR M]



Source: JLL, WRF

Market trends in the main market segments of PHN

► OFFICES

- High activity of developers and **record-high level of supply**, especially in Warsaw
- **Expected vacancy rate increase** (currently at 15.1% in Warsaw)
- **Downward pressure on rents** – much stronger in Warsaw than in regional cities, where the BPO/SSC sector expansion serves as a booster for the office space demand
- Incentives offered to tenants: **effective rents are 15%-30% lower** than nominal rates due to rent-free periods and participation in fit-out costs

► LOGISTIC

- Increase in demand for logistic space **as a result of growing role of on-line retail** (more delivery companies) and **further road infrastructure development** that favors construction of new, bigger warehouse parks (i.e. two gigantic Amazon parks in Poznan/Wroclaw)
- **Internal demand will serve as a catalyst for further sector growth** (Poland is only at 0.2 sqm/capita of logistics space vs. an average of 1 sqm/capita) together with **demand coming from companies based in Poland that export to other markets** (i.e. the German car producers)
- Main locations are **Warsaw, Wrocław and the crossroads of the A1/A2 and A1/A4 highways**

► RETAIL

- **Sudden growth in the discounters segment all over Europe** affecting hypermarkets performance and the traditional retail sector
- Additionally in Poland, **consolidation and professionalization of the convenience stores segment**
- In the shopping mall sector, visible process of (i) „deterioration” of selected older assets and (ii) strengthening of the leading centers / locations
- **New trends and challenges increasingly influencing retailers:** on-line shopping, click & collect options

► RESIDENTIAL

- **Unsatisfied demand** (Poles enjoy one of the lowest number of sqm of living space/capita in Europe) and a **strong desire to own a flat** boost the market
- **Healthy economic growth combined with record low interest rates and availability of governmental subsidy/support programs**, result in buyer's optimism and reliance on mortgage debt for financing
- At the same time, the recent **global economic slowdown and newly introduced sector regulations in Poland** (i.e. LTV caps, escrow accounts) have helped the leading and established developers

PHN's real estate portfolio - key data as of June 30th, 2014

► REAL ESTATE PORTFOLIO [PLN m]:

2,040

▲ + 0.6 %

30.06.2013: **2,028**

As of June 30th, 2014, the value of Group's real estate portfolio amounted to PLN 2,040 m

► REAL ESTATE PORTFOLIO *[number]:

144

▼ - 4.6 %

30.06.2013: **151**

As of June 30th, 2014, the Group's real estate portfolio comprised 144 assets

► GROSS LEASEABLE AREA [sqm]:

302,597

▼ - 1.0 %

30.06.2013: **305,605**

The Group has 302,597 sqm of gross leasable area (office, retail, logistics and other space)

► LAND [ha]:

699

▼ - 41.1 %

30.06.2013: **1,186**

As of June 30th, 2014, the Group owns 699 ha of land in total

► ASSETS LOCATED IN WARSAW [%]:

89

▲ + 1.1 %

30.06.2013: **88**

89% of Group's real estate portfolio that yields income is based in Warsaw and its surroundings

► NUMBER OF TENANTS:

1,201

▼ - 3.2 %

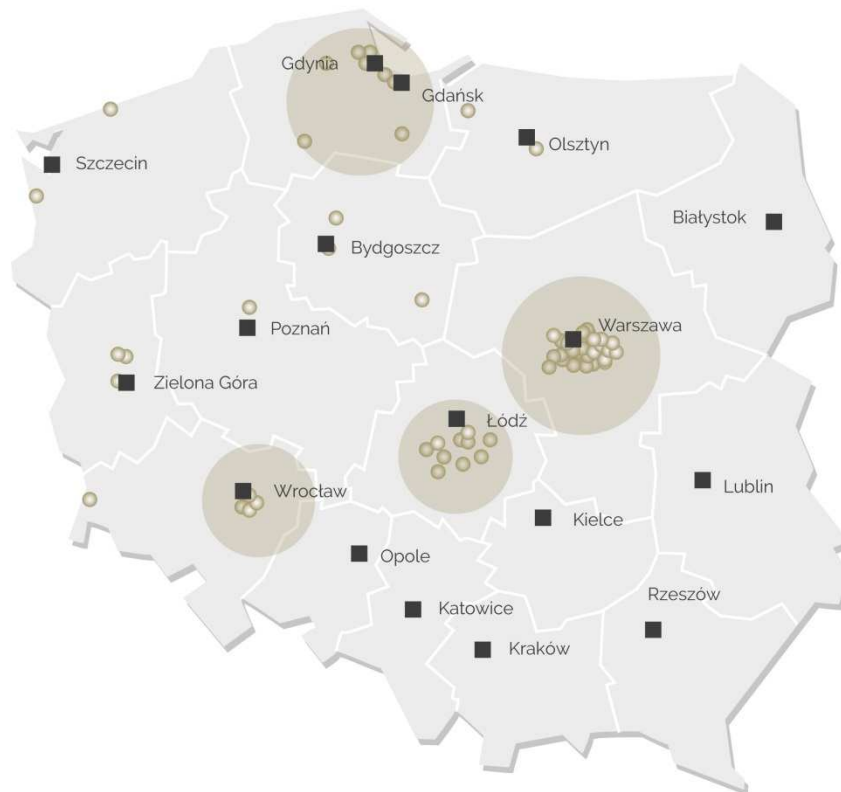
30.06.2013: **1,241**

As of June 30th, 2014, 74% of tenants were active in business-related sector

* Excluding 23 assets with unsure legal status that are worth app. PLN 160 m (as of June 30th, 2014).

Portfolio of the PHN Group

PHN PROPERTIES - POLAND

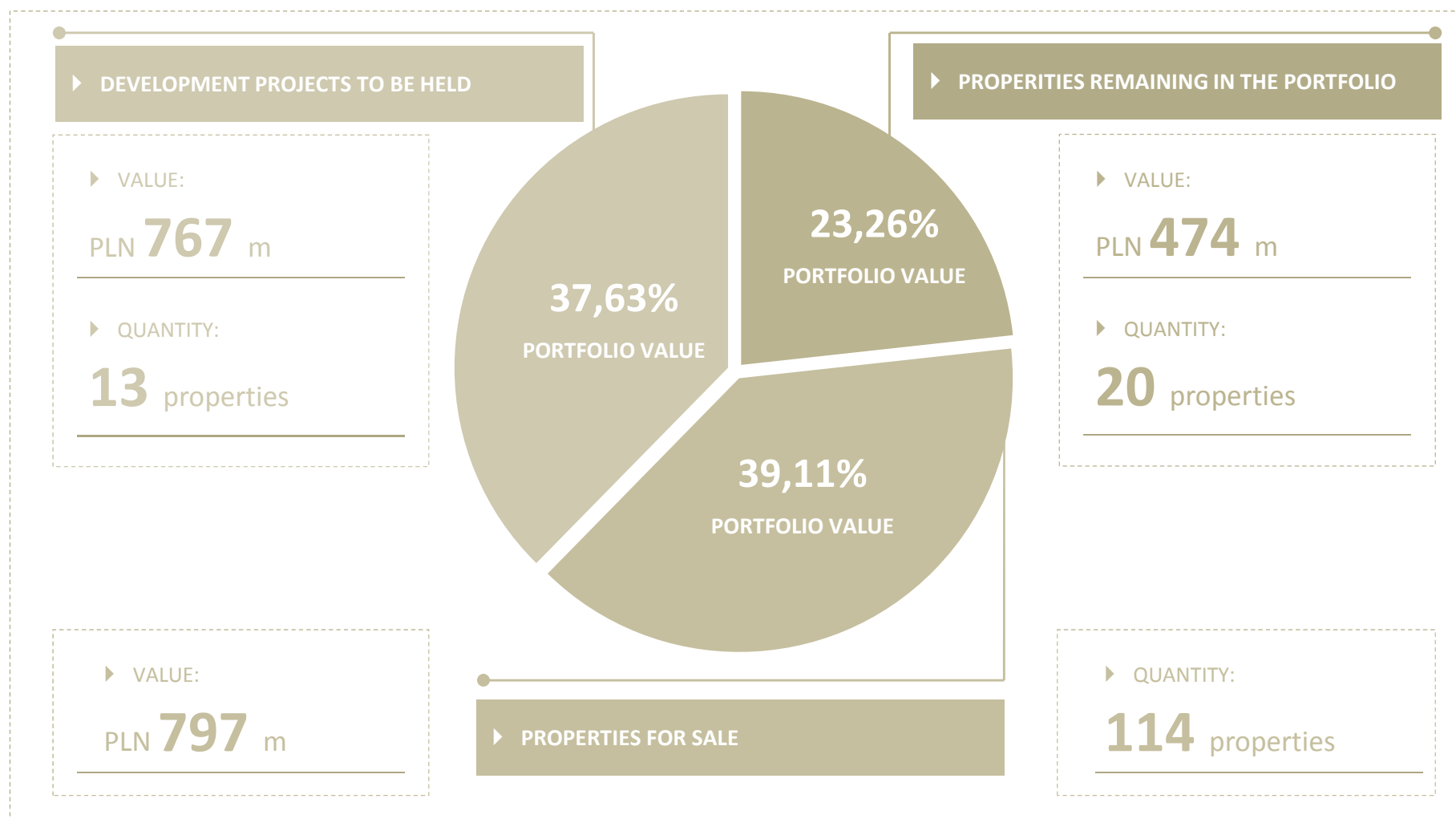


PHN PROPERTIES - WARSAW



Portfolio of the PHN Group

► The Group's real estate portfolio comprised a total of 147 properties valued PLN 2,038 m (data as of December 31st, 2013)



Key present and future assets of the PHN Group

▶ KEY EXISTING PROPERTIES

Intraco City

- ▶ Location: Warsaw, CBD
- ▶ Market value: PLN 155 m
- ▶ Leasable space: 26,000 sqm



Jana Pawła II 12

- ▶ Location: Warsaw, CBD
- ▶ Market value: PLN 95 m
- ▶ Leasable space: 11,000 sqm



Senatorska 27 & Wierzbowa 9/11

- ▶ Location: Warsaw, CBD
- ▶ Market value: PLN 63 m
- ▶ Leasable space: 8,000 sqm



▶ KEY FUTURE PROJECTS

City Tower | C - Tower

- ▶ Location: Warsaw, CBD
- ▶ Capex: ca. PLN 520 m
- ▶ GLA planned: 47,000 sqm



Port Rybacki

- ▶ Location: Gdynia
- ▶ Capex: PLN 1,100 m
- ▶ GLA planned: 54,000 sqm



Domaniewska Office Hub & Wilanowska City

- ▶ Location: Warsaw, Mokotów
- ▶ Capex: PLN 357 m
- ▶ GLA planned: 55,000 sqm



Key commercial development projects

1

COMPLETED:

► RAKOWIECKA CITY, Warsaw

- GLA: 1,700 sqm
- Beginning: 1Q 2012
- Completion: 1Q 2014
- CapEx: PLN 12 m

► FOKSAL CITY, Warsaw

- GLA: 3,340 sqm
- Beginning : 3Q 2012
- Completion: 2Q 2014
- CapEx: PLN 30 m

UNDER CONSTRUCTION:

► WROCŁAW INDUSTRIAL PARK

- GLA: 40,000 sqm under construction
- Beginning: 3Q 2012 (I) / 1Q 2014 (II)
- Completion: 4Q 2013 (I) / 4Q 2015 (II)
- CapEx: costs of JV partner

► DOMANIEWSKA OFFICE HUB, Warsaw:

- GLA: 27,100 sqm
- Beginning: 1Q 2014
- Completion: 3Q 2015
- CapEx: PLN 177 m

- **TOTAL GLA:** 72,140 sqm
- **TOTAL CAPEX:** PLN 219 m

2

UNDER PREPARATION:

► CITY TOWER | C – TOWER, Warsaw

- GLA: 47,000 sqm
- Beginning: 2017
- Completion: 2019
- CapEx: ca. PLN 520 m

► PORT RYBACKI, TriCity

- GLA: 54,000 sqm/PUM: 122,000 sqm
- Beginning: 2015 (I phase)
- Completion: 2017 (I phase)
- Total CapEx: ca. PLN 1,100 m

► PARZNIEW LOGISTIC HUB

- GLA: 80,000 sqm (5 phases)
- Beginning: 2015 (I phase)
- Completion: 2016 (I phase)
- Total CapEx: ca. PLN 125 m

► LEWANDÓW RETAIL HUB

- Overall GLA: 65,000 sqm
- Beginning: 2014 (I phase)
- Completion: 2015 (I phase)
- Total CapEx: ca. PLN 180 m

- **TOTAL GLA:** 246,000 sqm
- **TOTAL CAPEX:** PLN 1,925 m

3

PLANNED:

► INTRACO CITY, Warsaw

- Overall GLA: 38,000 sqm
- Beginning: 2015 (I) / 2017 (II)
- Completion: 2016 (I) / 2020 (II)
- Total CapEx: ca. PLN 270 m

► WILANOWSKA OFFICE HUB, Warsaw

- GLA: 28,000 sqm
- Beginning: 2016
- Completion: 2017
- Capex: ca. PLN 180 m

► BARTYCKA RETAIL HUB, Warsaw

- Overall GLA: 50,000 sqm
- Beginning: 2015 (I) / 2016 (II)
- Completion 2016 (I) / 2017 (II)
- Total CapEx: ca. PLN 210 m

► LUĆMIERZ RETAIL HUB

- GLA: 40,000 sqm
- Beginning: 2016
- Completion: 2017
- Capex: ca. PLN 185 m

- **TOTAL GLA:** 156,000 sq m
- **TOTAL CAPEX:** PLN 845 m



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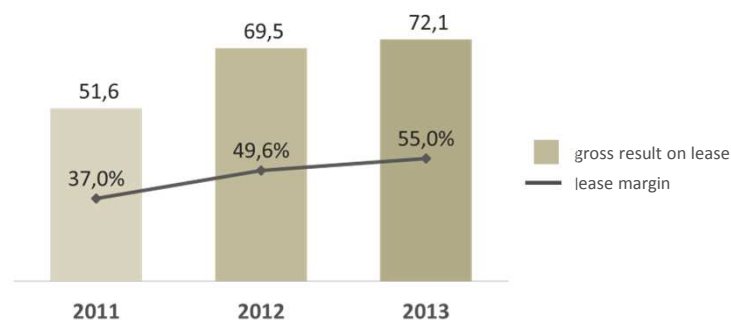
Key restructuring activities



Restructuring results to-date

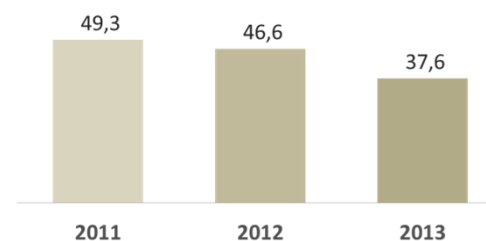
- ▶ SYSTEMATIC INCREASE IN OPERATIONAL EFFECTIVENESS IN THE GROUP'S CORE OPERATING SEGMENT (LEASING) – IMPROVED MARGIN AND FINANCIAL RESULT

- ▶ Lease result and lease margin



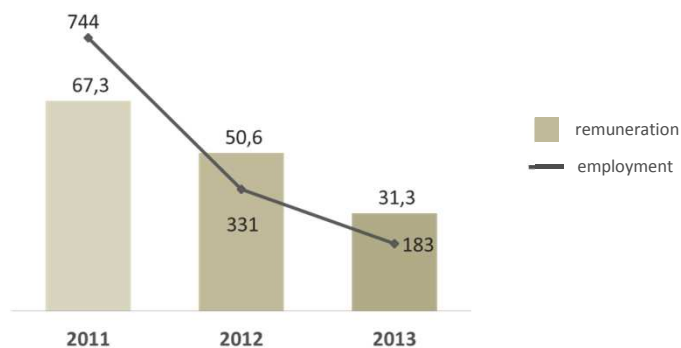
- ▶ IMPORTANT DECREASE IN SG&A COSTS AS A RESULT OF OPERATIONAL RESTRUCTURING, INCLUDING CENTRALISATION OF MANAGEMENT FUNCTIONS AND EMPLOYMENT REDUCTION

- ▶ SG&A costs (adjusted*)



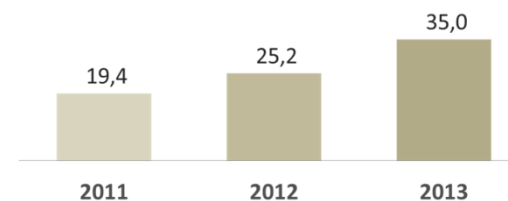
- ▶ OVER DOUBLE DECREASE IN REMUNERATIONS COSTS AS A RESULT OF CONSISTENT OPTIMISATION OF EMPLOYMENT

- ▶ Remuneration and employment



- ▶ GROUP'S EFFECTIVENESS INCREASED BY 80% (2013 VS. 2011) – WELL VISIBLE IN ADJUSTED EBITDA GROWTH

- Adjusted EBITDA**



* Adjusted by the Group's creation and restructuring costs as well as the IPO expenditures

** Adjusted by the Group's creation and restructuring costs as well as the IPO expenditures, severance pay, additional contingencies and compensations related to past years

Main achievements

► RAKOWIECKA CITY, Warsaw:

Revitalization and subsequent profitable sale

- **Revitalization and modernization** of a tenement house into a modern A-class office building in central Warsaw
- Revitalization and modernization expense - **PLN 12 m**
- **Asset sale to the Embassy of the Republic of Turkey** at a price above the book value



► INTRACO CITY AND DOMANIAEWSKA OFFICE HUB, Warsaw:

Providing complex solutions to clients (Poczta Polska S.A./Polish Post)

- **Lease agreement with Poczta Polska S.A. (Polish Post Corporation) signed in 2012: a pre-let of 50% of the office space of Domaniewska Office Hub development to start in 2Q2015**
- **Until the completion of Domaniewska Office Hub**, providing Poczta Polska with its current headquarter in Intraco City
- **Rearrangement of the office space** at Intraco City after Poczta Polska departure back to multi tenant space again



► CITY TOWER | C – TOWER (Warsaw), PORT RYBACKI (TriCtiy), and PSIE POLE (Wrocław)

Collaboration on development projects with trustworthy JV partners

- Reputable JV development partners across Poland:
 - **City Tower | C – Tower** - Hochtief Development Poland
 - **Port Rybacki** - mLocum S.A. (Commerzbank AG Group)
 - **Psie Pole** - Segro Poland Sp. z o.o. (SEGRO BV Group)

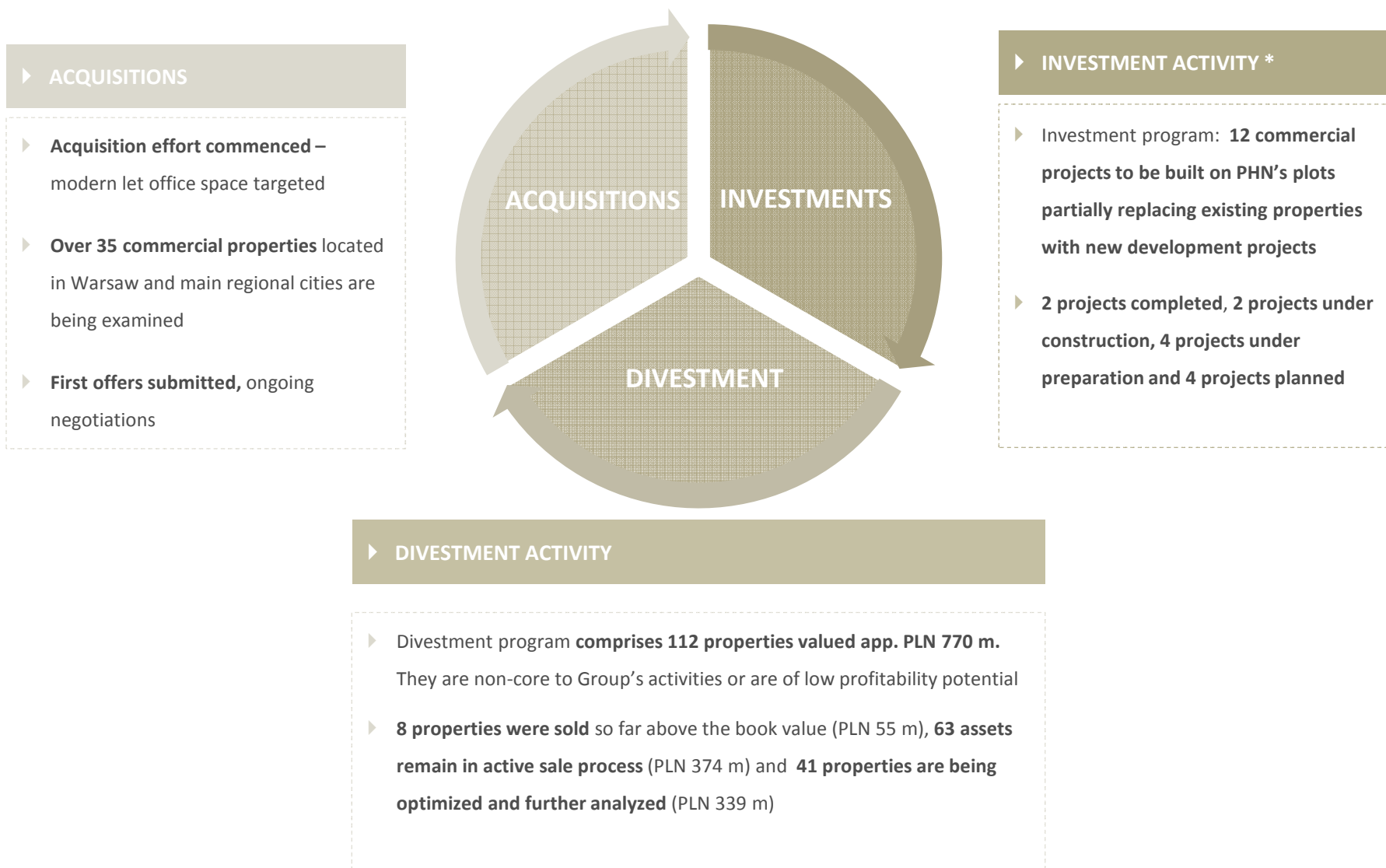




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The optimal allocation of capital - capital recycling

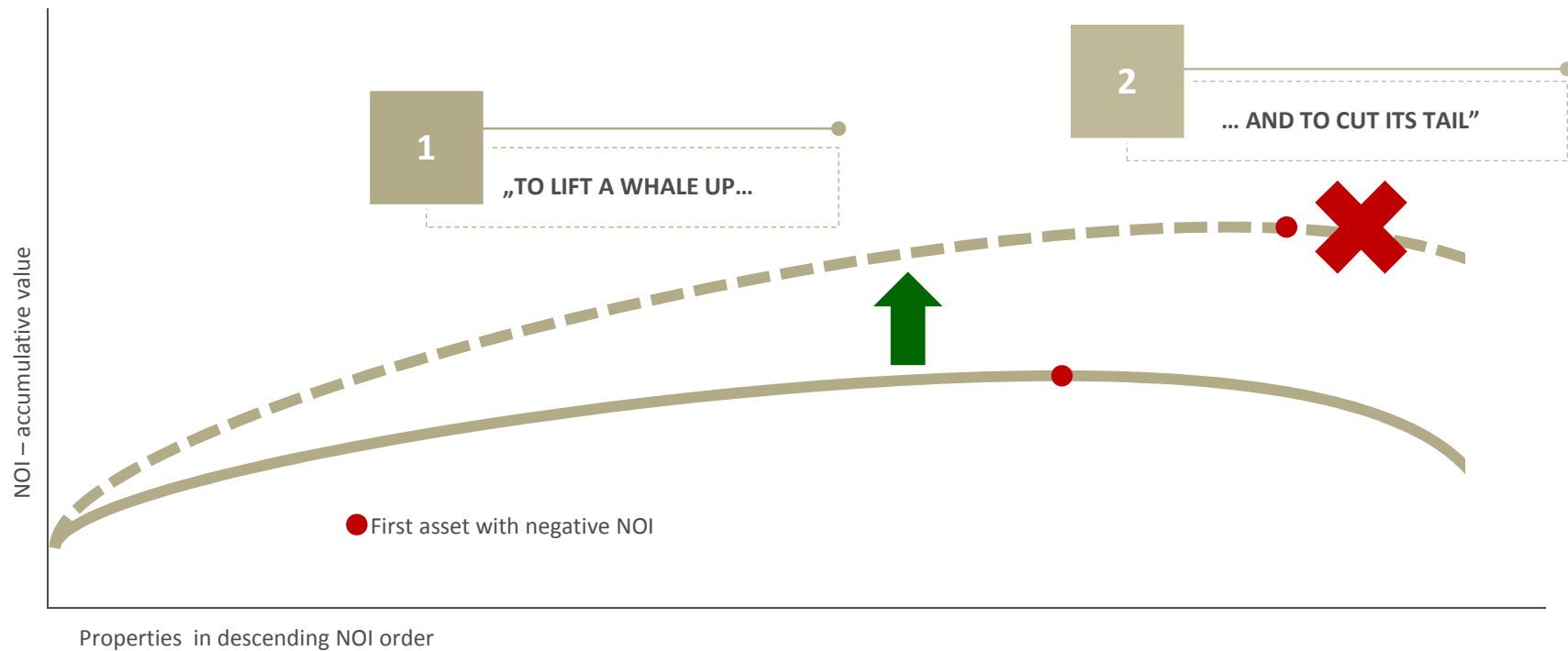


* Includes the Port Rybacki, Tricity project

Profitability maximization: „to lift a whale up and to cut its tail”

PROFITABILITY OF THE GROUP'S PROPERTIES

Simplified graph



► REAL ESTATE PROFITABILITY IMPROVEMENT

► SALE OF SELECTED ASSETS

► NEW DEVELOPMENT PROJECTS

REACHING AN AVERAGE RATE OF CAPITALIZATION
FROM INCOME GENERATING ASSETS OF 6%+

New operational elements of PHN's strategy



Expected outcomes of the new Group's strategy

► INCREASE OF GROSS ASSETS:

PLN 5,7 bln

Potential increase in the value of the real estate portfolio from PLN 2 bln to PLN 5,7 bln (by 185% by 2023)

► CAPITAL EXPENDITURE:

> PLN 1 bln

Ability to invest over PLN 1 bln in buying modern income generating office space

► LTV LEVEL:

50%

A potential of increasing the level of external financing to ca. 50% LTV

► YIELD:

6% +

A targeted growth in real estate portfolio profitability (yield) to 6% +

► SGA* / GAV**:

0.7%

Operating effectiveness improvement measured by a decrease in the ratio between SGA costs vs. assets value to 0.7%

► GROWTH OF NET ASSETS:

+ 75%

A potential of increasing the value of net assets by almost 75% by 2023 over half of which could be paid out as a dividend

A deep change in the future net income structure – an over time decrease of restructuring proceeds and development margin and its partial replacement with leasing income

* SGA – sale, general & administrative costs

** GAV – gross asset value

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