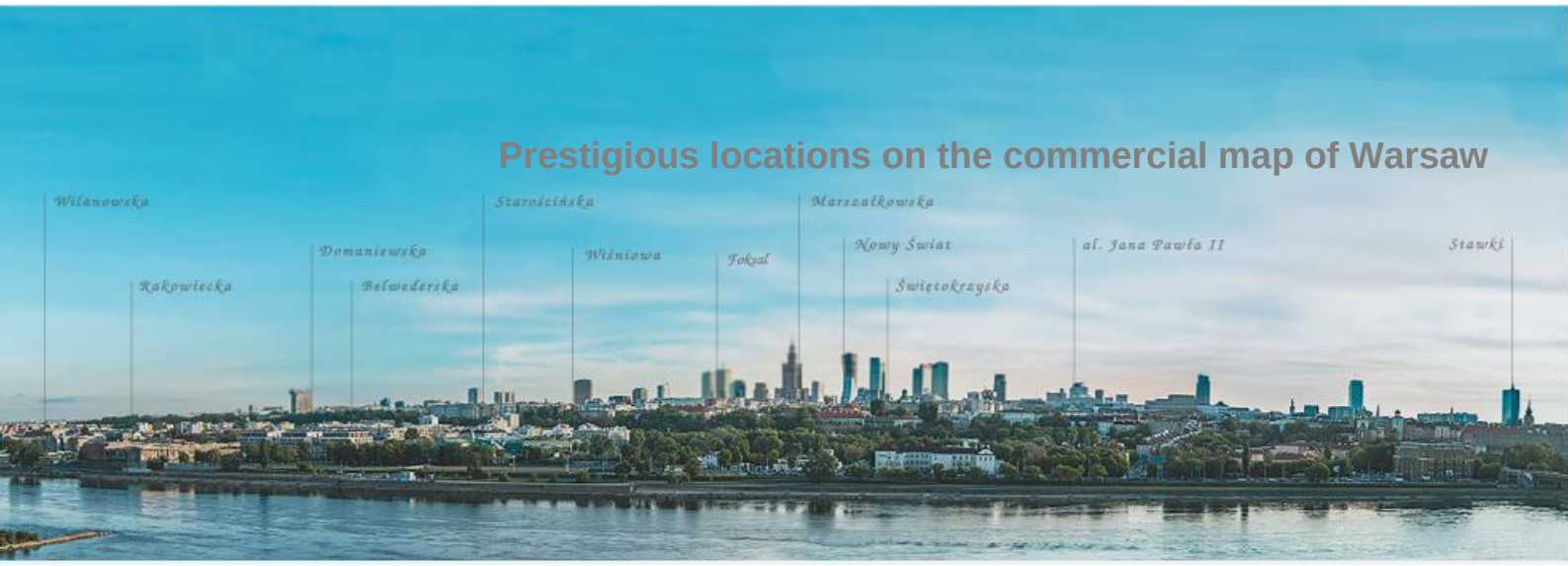

POLSKI HOLDING NIERUCHOMOŚCI SPÓŁKA AKCYJNA

ANNUAL REPORT

FOR THE YEAR 2014

Polski Holding
Nieruchomości S.A.

Annual report consists of:

1. **Letter from the President of the Management Board**
2. **Selected financial data**
3. **The auditor's opinion and report on the financial statements for the year ended 31 December 2014**
4. **Financial statements for the year ended 31 December 2014**
5. **Polski Holding Nieruchomości Directors' Report for the year ended 31 December 2014**

Dear Sir / Madam,

In the past year we focused on improving the structure and profitability of our real estate portfolio. In September 2014, the main assumptions of our strategy "We build value" were adopted. The goals for the coming years are ambitious, but the attached financial results, among other things, show that we are able to achieve them.

We are gradually improving our position of a leading investor on the market of modern commercial real estate and, in line with our new strategy, we are increasing our presence on the residential property market. In order to ensure optimum capital allocation ('capital recycling'), we dispose of assets which do not match the Group's business profile or do not bring a satisfactory return. Proceeds from such disposals are invested in modern commercial projects carried out by the Company or acquired from other developers.

We always focus on quality carrying out all our projects. PHN"s development projects are characterized by their original, timeless architecture and the high standard of the solutions applied. It is our intention to maintain such quality standards in the coming years.

I am pleased to inform you that the consolidated financial result of the Polski Holding Nieruchomości Group for the year 2014 amounts to PLN 107.8 million. We were able to generate such an excellent financial result due to the effective implementation of our strategic objectives.

In 2014, the process of increasing the profitability of our key properties was continued. We sold numerous assets at a profit, including the Rakowiecka City building renovated by PHN. We topped out the Domaniewska Office Hub building (our flagship project). We also started the construction of a modern office and residential complex, Port Rybacki in Gdynia, and design work for the Intraco City and Bartycka Retail Hub projects. In addition to our commercial and residential development projects (at various stages of completion), we started re-development projects on our boutique properties located in the centre of Warsaw.

In addition to these achievements, we also put a lot of effort (although often invisible) in administration, finance and property management. Such activities effectively improve the quality of our organization and their effect will contribute to the "building of value" in the coming years.

It would not have been possible to achieve our strategic objectives and generate excellent financial results in the past year without the hard work of all the Employees of our Group and commitment of the Supervisory Board, for which, on behalf of the Management Board, I would like to express our sincere gratitude. Above all, however, I would like to thank all our Shareholders. Your trust, which we experience each day, makes us feel appreciated and motivates us to pursue ambitious goals. I believe that 2015 will be another successful year for the Polski Holding Nieruchomości Group.

Yours faithfully,

Artur Lebiedziński
The President of the Management Board
Polski Holding Nieruchomości S.A.

Selected financial data

Selected consolidated financial data	in PLN million		in EUR thousand	
	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2014	Year ended 31 December 2013
I. Operating revenues	131.2	107.9	31 317.9	25 756.1
II. Result from operating activities	123.5	99.4	29 479.9	23 727.1
III. Profit/ (loss) before tax from continuing operations	120.5	98.8	28 763.8	23 583.9
IV. Net result	120.8	99.0	28 835.4	23 631.6
V. Cash flow from operating activities	(0.8)	(5.4)	(191.0)	(1 289.0)
VI. Cash flow from investing activities	0.0	(0.1)	0.0	(23.9)
VII. Cash flow from financing activities	0.8	5.4	191.0	1 289.0
VIII. Total net cash flow	0.0	(0.1)	0.0	(23.9)
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
IX. Total assets	2 034.9	1 858.0	477 418.3	435 914.9
X. Non-current liabilities	0.3	15.5	70.4	3 636.5
XI. Current liabilities	120.5	1.1	28 271.1	258.1
XII. Equity attributable to the equity holders of the parent	1 914.1	1 841.4	449 076.8	432 020.3
XIII. Issued capital	46.5	44.6	10 905.4	10 463.8
XIV. Number of shares (in pcs)	46 482 044	44 599 947	46 482 044	44 599 947
XV. Profit/(loss) per ordinary share (in PLN/EUR)	2.62	2.26	0.63	0.54
XVI. Book value per share (in PLN/EUR)	41.18	41.29	9.66	9.69

The above financial data for the year ended 31 December 2014 and for the year ended 31 December 2013 were converted to EUR according to the following rules:

- particular assets, equity and liabilities – based on the average exchange rate as of 31 December 2014: 4.2623 PLN/EUR

- particular items of the statement of comprehensive income and statement of cash flows – based on arithmetic average of average of exchange rates announced by Narodowy Bank Polski at the end of each month of reporting period from 1 January 2014 to 31 December 2014 – 4.1893 PLN/EUR

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POLSKI HOLDING NIERUCHOMOŚCI S.A.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

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

POLSKI HOLDING
NIERUCHOMOŚCI S.A.

A. Financial Statements

Statement of financial position as at 31 December 2014

	Note	31 December 2014	31 December 2013	1 January 2013
ASSETS				
Non-current assets				
Property, plant and equipment	9	0.0	0.1	0.1
Deferred tax assets		0.6	0.3	0.1
Investment in subsidiaries	10	1 645.8	1 855.4	1 719.6
Other long-term financial assets	11	260.0	0.0	0.0
Total non-current assets		**1 906.4**	**1 855.8**	**1 719.8**
Current assets				
Trade receivables and other assets	12,13	128.3	2.0	2.6
Cash and cash equivalents	12,14	0.2	0.2	0.3
Total current assets		**128.5**	**2.2**	**2.9**
Total assets		**2 034.9**	**1 858.0**	**1 722.7**
Current liabilities				
Trade and other payables	12	(1.4)	(1.1)	(3.4)
Short-term debt	17	(119.1)	(0.0)	(2.1)
Total current liabilities		**(120.5)**	**(1.1)**	**(5.5)**
Non-current liabilities				
Long-term debt	17	(0.0)	(15.5)	(7.4)
Non-current provisions		(0.3)	(0.0)	(0.0)
Total non-current liabilities		**(0.3)**	**(15.5)**	**(7.4)**
Total liabilities		**(120.8)**	**(16.6)**	**(12.9)**
Net assets		**1 914.1**	**1 841.4**	**1 709.8**
Equity				
Issued capital	15	46.5	44.6	43.4
Share premium	16	1 746.3	1 696.5	2 237.6
Other reserve		0.5	1.3	1.3
Retained earnings		120.8	99.0	(572.5)
Total equity		**1 914.1**	**1 841.4**	**1 709.8**

Statement of comprehensive income for the year ended 31 December 2014

	Note	Year ended 31 December 2014	Year ended 31 December 2013
Revenue from core operating activity	18	5.1	4.8
Cost of core operating activity	18	(2.6)	(2.8)
Change in value of shares in subsidiaries	10	92.4	103.1
Profit/(loss) from redemption of shares in subsidiaries		33.7	0.0
Core operating activity result		**128.6**	**105.1**
Administrative expenses		(4.3)	(5.9)
Other revenues		0.0	0.2
Other costs		(0.8)	0.0
Profit on operating activities		**123.5**	**99.4**
Finance costs	19	(3.0)	(0.6)
Net loss from financing activities		**(3.0)**	**(0.6)**
Profit before tax		**120.5**	**98.8**
Income tax expense		0.3	0.2
Net profit		**120.8**	**99.0**
Other comprehensive income			
Total comprehensive income		**120.8**	**99.0**
Basic and diluted net earnings per share	22	2.62 PLN	2.26 PLN

Statement of changes in equity for the year ended 31 December 2014

	Note	Issued capital	Share premium	Other reserve	Retained earnings	Total equity
As at 1 January 2014		44.6	1 696.5	1.3	99.0	**1 841.4**
Net profit for the period					120.8	**120.8**
Total comprehensive income for the period					120.8	**120.8**
Payment of dividend				(0.8)	(99.0)	**(99.8)**
Share issue		1.9	49.8			**51.7**
As at 31 December 2014		46.5	1 746.3	0.5	120.8	1 914.1
As at 1 January 2013		**43.4**	**2 237.6**	**1.3**	**(572.5)**	**1 709.8**
Net profit for the period					99.0	99.0
Total comprehensive income for the period					**99.0**	**99.0**
Share issue	15,16	1.2	31.4			**32.6**
Transfer between capital			(572.5)		572.5	**0.0**
As at 31 December 2013		**44.6**	**1 696.5**	**1.3**	**99.0**	**1 841.4**

Statement of cash flows
for the year ended 31 December 2014

	Note	Year ended 31 December 2014	Year ended 31 December 2013
Cash flow from operating activities			
Profit before tax		**120.5**	**98.8**
Adjustments to cash flow from operating activities		**(121.3)**	**(104.2)**
Depreciation and amortization		0.1	0.0
Change in value of shares in subsidiaries		(92.4)	(103.1)
Profit/(loss) from redemption of shares in subsidiaries		(33.7)	0.0
Borrowing costs		3.0	0.6
Change in working capital	14	1.7	(1.7)
Net cash flow from operating activities		**(0.8)**	**(5.4)**
Cash flow from investing activities			
Total inflow		**0.0**	**0.0**
Total outflow		**0.0**	**(0.1)**
Acquisition of shares in subsidiaries		0.0	(0.1)
Net cash flow from investing activities		**0.0**	**(0.1)**
Cash flow from financing activities			
Total inflow		**100.6**	**5.4**
Loans		100.6	5.4
Total outflow		**(99.8)**	**0.0**
Dividends		(99.8)	0.0
Net cash flow from financing activities		**0.8**	**5.4**
Total net cash flow		**(0.0)**	**(0.1)**
Change in cash and cash equivalents		**(0.0)**	**(0.1)**
Cash and cash equivalents at the beginning of the period		**0.2**	**0.3**
Cash and cash equivalents at the end of the period		**0.2**	**0.2**

Accounting policies and notes to the financial statements

1. General information

The financial statements of Polski Holding Nieruchomości S.A. cover the year ended 31 December 2014 and contain comparative data for the year ended 31 December 2013.

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

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

The duration of the Company is unlimited.

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

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

2. Basis of preparation of the financial statements

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU ("IFRS EU"). As at the date of these financial statements being approved for publication, taking account of the implementation of IFRS currently in process in the EU and the Company's activities, the IFRS accounting policies used by the Company differ from IFRS EU.

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

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

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

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

The preparation of the financial statements in accordance with IFRS requires using certain significant accounting estimates. It also requires that the Management Board uses its own judgment in applying the accounting policies adopted by the Company. The issues that require exercising significant judgment or are particularly complex or the areas in the case of which the assumptions and estimates made have a significant impact on the consolidated financial statements are presented in Note 8.3.

Management representations concerning the fairness of the preparation of the consolidated financial statements

The Management Board of Polski Holding Nieruchomości S.A. hereby declares that, to the best of its knowledge, these financial statements and comparative data have been prepared in accordance with the accounting policies applicable to the Company, they give a true, fair and clear view of the Company's financial position and results of operations, and that the Company Directors' Report gives a true view of the development and achievements as well as the position of the Company, including a description of the basic threats and risk.

Management representations concerning the entity authorized to audit the financial statements

The Management Board of Polski Holding Nieruchomości S.A. hereby declares that the entity authorized to audit the financial statements, PricewaterhouseCoopers Sp. z o.o., has been elected in compliance with the applicable laws and that the said entity and the registered auditors who audited these financial statements met the requirements for expressing an impartial and independent opinion on the audited annual financial statements, in accordance with the applicable laws and professional standards.

3. Classification of the consolidated financial statements

The Company prepared the consolidated financial statements as at and for the year ended 31 December 2014 in accordance with the IFRS. The financial statements were approved by the Company's Management Board on 16 March 2015.

4. Investments

As at 31 December 2014, the Company holds investments in the following subsidiaries:

Entity	Share in capital and voting rights	
	31 December 2014	31 December 2014
Warszawski Holding Nieruchomości S.A. (WHN S.A.)	97.92%	93.96%
INTRACO S.A.	0.28%	89.21%
BUDEXPO S.A.	0.12%	99.10%
Dalmor S.A.	1.21%	86.94%
Wrocławskie Centrum Prasowe Sp. z o.o.	0.00%	100.00%
PHN SPV 1 Sp. z o.o.	0.00%	100.00%
PHN SPV 2 Sp. z o.o.	0.00%	100.00%
PHN SPV 3 Sp. z o.o.	0.00%	100.00%
PHN SPV 4 Sp. z o.o.	0.00%	100.00%
PHN SPV 5 Sp. z o.o.	0.00%	100.00%
PHN SPV 6 Sp. z o.o.	0.00%	100.00%
PHN SPV 7 Sp. z o.o.	0.00%	100.00%
PHN SPV 8 Sp. z o.o.	0.00%	100.00%
PHN SPV 9 Sp. z o.o.	0.00%	100.00%
PHN SPV 10 Sp. z o.o.	0.00%	100.00%
PHN SPV 11 Sp. z o.o.	0.00%	100.00%
PHN SPV 12 Sp. z o.o.	100.00%	100.00%
PHN 4 Sp. z o.o.	100.00%	100.00%
PHN 4 Sp. z o.o. spółka komandytowo-akcyjna	0.00%	100.00%
PHN SPV Aktywa Specjalne Sp. z o.o.	100.00%	not applicable
PHN 5 Sp. z o.o.	100.00%	not applicable
PHN Property Management Sp. z o. o.	100.00%	not applicable

5. Composition of the Company's Management Board

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

In the period from 1 January 2014 to 10 April 2014

Mr Artur Lebiedziński - President of the Management Board

Mr Paweł Laskowski-Fabisiewicz - Vice-President of the Management Board

Mr Sławomir Frąckowiak - Management Board Member

Mr Rafał Krzemień - Management Board Member

Mr Włodzimierz Stasiak - Management Board Member in charge of finance

In the period from 11 April 2014 to 19 October 2014

Mr Artur Lebiedziński - President of the Management Board

Mr Włodzimierz Stasiak - Management Board Member in charge of finance

In the period from 20 October 2014:

Mr Artur Lebiedziński - President of the Management Board

Mr Włodzimierz Stasiak - Management Board Member in charge of finance

Mr Mateusz Matejewski - Vice-President of the Management Board - Supervisory Board Member temporarily designated to perform the function of Vice-President – Member of the Management Board in charge of Property Asset Management.

On 6 February 2015, the Supervisory Board appointed Mr Mateusz Matejewski for the position of Vice-President – Member of the Management Board in charge of Property Asset Management

6. New standards and interpretations issued but not yet effective

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

- ✓ **IFRS 9 *Financial Instruments***

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

The standard introduces one model providing only two categories of financial assets: measured at fair value and subsequently measured at amortized cost. The

classification is made at initial recognition and depends on the entity's business model applied to manage financial instruments and the contractual cash flow characteristics of these instruments.

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

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

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

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

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

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

  Amendments to IAS 19 *Employee Benefits* were issued by the International Accounting Standards Board in November 2013 and are effective in the European Union for annual periods beginning on or after 1 February 2014.

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

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

- ✓ ***IFRS Improvements 2010-2012***

  In December 2013, the International Accounting Standards Board issued *IFRS Improvements 2010-2012* which amend seven standards. The improvements include changes in presentation, recognition and measurement as well as terminology and editorial changes. The amendments are effective in the European Union for annual periods beginning on 1 February 2014.

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

- ✓ ***IFRS Improvements 2011-2013***

  In December 2013, the International Accounting Standards Board issued *IFRS Improvements 2011-2013* which amend four standards. The improvements include changes in presentation, recognition and measurement as well as terminology and editorial changes. The amendments are effective in the European Union for annual periods beginning on 1 January 2014.

  The Company will apply the above *IFRS Improvements* as from 1 January 2015.

- ✓ **IFRS 14 *Regulatory Deferral Accounts***

  IFRS 14 is effective for annual periods beginning on or after 1 January 2016. The standard permits first-time adopters to continue to recognize amounts arising from rate-regulated activities in accordance with their previously binding accounting standards. However, to enhance comparability with entities that already apply IFRS and do not recognize such amounts, IFRS 14 requires that the effect of rate regulation be presented separately from other items both in the statement of financial position and in the income statement and the statement of other comprehensive income.

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

  As at the date of preparation of these financial statements, IFRS 14 had not yet been adopted by the European Union.

- ✓ **IFRIC 21 *Levies***

  IFRIC Interpretation 21 was issued on 20 May 2013 and is effective for annual periods beginning on or after 17 June 2014.

  The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The fact that an entity is going to continue in operation in the subsequent period, or prepares its financial statements under the going concern assumption, does not create an obligation to recognize a liability. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional.

  The Company will apply IFRIC 21 as from 1 January 2015.

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

  This amendment to IFRS 11 requires the investor when he acquires an interest in a joint operation that constitutes a business as defined in IFRS 3 to apply the accounting rules on businesses combinations in accordance with IFRS 3 and the rules under other standards, unless they are contrary to the guidance set out in IFRS 11.

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

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

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

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

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

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

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

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

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

  IFRS 15 *Revenue from Contracts with Customers* was issued by the International Accounting Standards Board on 28 May 2014 and is effective for annual periods beginning on or after 1 January 2017.

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

  The Company will apply IFRS 15 as from 1 January 2017.

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

- ✓ **Amendments to IAS 16 and IAS 41 concerning crops**

  The amendments require that specific bearer plants such as grape vines, rubber trees and oil palms (i.e. those which give produce for several periods and are not designated for sale as saplings or for harvesting) to be accounted for in terms of IAS 16 *Property, plant and equipment*, because their cultivation is similar to production. As a result, these amendments include such plants in the scope of IAS 16 and not IAS 41. The produce from these plants remains within the scope of IAS 41.

  The amendments were issued on 30 June 2014 and are effective for annual periods beginning on 1 January 2016.

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

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

- ✓ **Amendments to IAS 27 concerning the equity method in separate financial statements**

  The amendments to IAS 27 enable the application of the equity method as one of the optional methods of accounting for investments in subsidiaries, jointly controlled entities and associates in separate financial statements.

  The amendments were issued on 12 August 2014 and are effective for annual periods beginning on 1 January 2016.

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

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

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

  The amendments solve the problem of the current inconsistency between IFRS 10 and IAS 28. The accounting treatment depends on whether non-monetary assets sold or contributed to an associate or joint venture constitute a business.

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

  The amendments were issued on 11 September 2014 and are effective for annual periods beginning on 1 January 2016.

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

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

- ✓ ***IFRS Improvements 2012-2014***

  In September 2014, the International Accounting Standards Board issued *IFRS Improvements 2012-2014* which amend four standards: IFRS 5, IFRS 7, IAS 19 and IAS 34. The

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

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

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

✓ **Amendments to IAS 1**

On 18 December 2014, as part of its Disclosure Initiative, the International Accounting Standards Board issued an amendment to IAS 1. The purpose of issuing the amendment is to clarify the concept of materiality and to explain that if an entity concludes that certain information is immaterial, it should not be disclosed, even if, in principle, such disclosure is required by another IFRS. In the amended IAS 1, it has been explained that the items presented in the statement of financial position and the statement of profit and loss and other comprehensive income can be aggregated or disaggregated, depending on their materiality. Additional guidance was also introduced, concerning the presentation of subtotals in these statements. The amendments are effective for annual periods beginning on 1 January 2016.

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

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

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

On 18 December 2014, the International Accounting Standards Board issued the so-called narrow-scope amendment. Amendment to IFRS 10, IFRS 12 and IAS 28 titled *Investment Entities: Applying the Consolidation Exception* specifies the requirements concerning investment entities and introduces certain facilitations.

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

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

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

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

7. Significant accounting policies

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

- a change in the presentation of the statement of financial position in order to provide the users of these financial statements with a more transparent layout of assets and liabilities which reflects the business sense, and to provide the Company's net asset values directly from the statement of financial position;
- the application of the following amendments to the standards and new interpretations effective for annual periods beginning on 1 January 2014:

✓ **IFRS 10 *Consolidated Financial Statements***

The new standard replaces the guidance on control and consolidation contained in IAS 27 *Consolidated and Separate Financial Statements* and in SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control so that the same criteria are applicable to all entities for determination of control. The changed definition is accompanied by extensive application guidance.

✓ **IFRS 11 *Joint Arrangements***

The new standard replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers*. Due to changes in definitions, the number of types of joint arrangements was reduced to two: joint operations and joint ventures. At the same time, the former possibility of choosing proportionate consolidation for jointly controlled entities has been

eliminated. All participants in joint arrangements are now required to recognize them under the equity method.

- ✓ **IFRS 12 *Disclosure of Interests in Other Entities***
  The new standard applies to entities which have interests in subsidiaries, joint arrangements, associates or unconsolidated structured entities. The standard replaces the requirements for the disclosures currently contained in IAS 27 *Consolidated and Separate Financial Statements*, IAS 28 *Investments in Associates*, and IAS 31 *Interests in Joint Ventures*. IFRS 12 requires that entities should disclose information which will help the users of the financial statements to assess the nature, risk and financial effects of investments in subsidiaries, associates, joint arrangements and unconsolidated structured entities. For this purpose, the new standard requires entities to disclose information in many areas, including significant judgements and assumptions adopted to determine whether the entity controls, jointly controls or has significant influence over other entities; extensive information on the effect of non-controlling interests on the Company's activities and cash flows; summary financial information on subsidiaries with significant non-controlling interests, as well as detailed information on interests in non-consolidated structured entities.
- ✓ **Revised IAS 27 *Separate Financial Statements***
  IAS 27 was revised in connection with the publication of IFRS 10 *Consolidated Financial Statements*. The objective of the revised IAS 27 is to set the requirements for the recognition and presentation of investments in subsidiaries, joint ventures and associates when an entity prepares separate (non-consolidated) financial statements. Guidance relating to control and consolidated financial statements have been replaced by IFRS 10.
- ✓ **Revised IAS 28 *Investments in Associates and Joint Ventures***
  The amendments to IAS 28 resulted from the IASB project concerning joint arrangements. The Board has decided to incorporate the principles for the recognition of joint ventures under the equity method in IAS 28, because the equity method is applicable to both joint ventures and associates. Apart from this exception, other guidelines did not change.
- ✓ ***Offsetting financial assets and financial liabilities* – amendments to IAS 32**
  The amendments introduce additional application guidance to IAS 32, aimed at clarifying the inconsistencies in the application of certain offsetting criteria. They include, amongst others, an explanation of the term "has a valid legal title to offset" and an explanation that some mechanisms for settlement on a gross basis may be treated as settled on a net basis when certain conditions are met.
- ✓ ***Recoverable amount disclosures for non-financial assets* – Amendments to IAS 36**
  The amendments remove the requirement to disclose the recoverable amount when a cash-generating unit contains goodwill or intangible assets with an indefinite useful life but there was no impairment.
- ✓ ***Novation of derivatives and continuation of hedge accounting* – Amendments to IAS 39**
  The amendments allow hedge accounting to be continued in circumstances when a derivative instrument previously designated as a hedging instrument is novated (i.e. the parties have agreed to replace the original counterparty with a new one) as a result of settling the instrument with the central clearing chamber as a consequence of laws or regulations, when strictly specified conditions have been met.

The application of the above amendments to the standards and new interpretations effective for annual periods beginning on 1 January 2014 had no impact on the Company's financial position or results of operations or the scope of the information presented in the Company's financial statements.

7.1 Measurement of items denominated in foreign currencies

7.1.1 Functional currency and presentation currency

Items included in the financial statements are measured in the currency of the primary economic environment in which the entity operates ("functional currency"). The financial statements are presented in Polish zloties (PLN) which are the Company's functional currency and presentation currency of the Company.

7.1.2 Transactions and balances

Transactions denominated in foreign currencies are translated into the functional currency of the Company at the rate of exchange actually applied on the transaction date that results from the nature of a given business operation (in the case of sale or purchase of foreign currencies or payment of receivables or liabilities) or for all other operations at the average exchange rate published for the given currency by the National Bank of Poland prevailing on the day preceding that

date. Assets and liabilities denominated in foreign currencies are translated at the mid exchange rate for the given currency determined by the National Bank of Poland as at that date. Exchange gains and losses on settlements of these transactions and the balance sheet valuation of assets and liabilities denominated in foreign currencies are recognized in the income statement.

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

7.2 Property, plant and equipment

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

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

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

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

Property, plant and equipment are assessed for impairment if events or circumstances indicate that their carrying amount may not be realized. Impairment losses are recognized in the amount by which an asset's carrying amount exceeds its recoverable amount and are recognized in the profit/loss. The recoverable amount is the higher of the asset's fair value less selling expenses and its value in use.

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

Assets under construction

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

7.3 Impairment of non-financial assets

Depreciable assets are assessed for impairment each time events or a change in circumstances indicate that their carrying amount may not be recoverable. Impairment losses are recognized to the amount in which an asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less selling expenses and its value in use. For the purpose of impairment analysis, assets are grouped at the lowest level for which separate cash inflows can be identified (cash generating units). Non-financial assets, for which impairment losses have been previously identified, are at each reporting date verified for the possibility of impairment loss reversal.

7.4 Costs of external financing

The costs of external financing comprise interest calculated using the effective interest rate method, finance lease liabilities and foreign exchange losses arising in connection with external financing up to the amount corresponding to the adjustment of interest expenses.

7.5 Non-current financial assets

The Company values shares held in subsidiaries (non-current financial assets) at the purchase price, which (in the event of impairment being identified) is adjusted to the estimated recoverable amount determined as the carrying value of net assets adjusted for the fair value measurement of the net assets which are recognized in the books of account at the purchase price less accumulated impairment. Assets are tested for impairment if there are indications that the carrying amount of investment may not be recovered. The Company analyzes the value of the net assets of the companies in which it holds interest due to the fact that the main assets of such companies are investment properties recognized at the fair value. Due to the above, in the Management Board's opinion, the net asset value reflects the fair value of the shares held. In the event of impairment or reversal of impairment, write-downs are recognized in the statement of comprehensive income under "Change in the value of shares in subsidiaries".

7.6 Financial assets

The Company classifies its financial assets into the following categories:

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

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

7.7 Trade receivables and other assets

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

Impairment write-downs against trade and other receivables are recognized at the end of each quarter, if objective evidence exists that the Company will not be able to recover all amounts due and receivable under original terms and conditions. The objective evidence of receivables' impairment are: serious financial problems of debtors or delayed payments. The amount of the write-down is the difference between the receivable's carrying amount and the present value of estimated future cash flows associated with the receivable. Impairment losses are recognized in the consolidated statement of comprehensive income under "other costs". Appropriate impairment allowances are created for bad debts. Any future repayments of receivables for which an impairment allowance was recognized are taken to "other revenues" in the consolidated statement of comprehensive income.

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

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

7.8 Cash and cash equivalents

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

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

7.9 Interest-bearing loans, advances and debt securities

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

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

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

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

7.10 Equity

Share capital is stated at the nominal value registered with the National Court Register (KRS). The differences between the fair value of the payment received and the nominal value of the shares are recorded in reserve capital, as share premium and recognized in the statement of financial position under “Excess of the issue price over the nominal amount”. Costs of share issue incurred in connection with formation of a joint-stock company or a share capital increase reduce the share premium to the amount of excess of the issue price over the nominal amount of the shares, and the remaining part is charged to other reserves. Other supplementary capital is created from retained earnings, which are credited to other supplementary capital in accordance with the shareholders' decision.

7.11 Trade and other payables

Trade and other payables are initially stated at fair value. After initial recognition, trade and other payables are stated at amortized cost using the effective interest rate method. Where the difference between payables stated at amortized cost and in the amount due and payable does not have any significant effect on the financial results of the Company, such payables are stated at the amount due and payable.

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

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

7.12 Income tax

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

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

Deferred tax is recognized using the liability method, as income tax payable in future periods (deferred tax liability) or income tax recoverable in future periods (deferred tax assets) on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts used to calculate the tax base. Deferred tax assets and deferred tax liabilities are measured using the tax rates that are expected to apply in the period when the asset is realized or the liability is settled.

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

The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed as at each balance sheet date and recognized up to the amount reflecting the probable future taxable income earned which would enable utilizing the asset.

7.13 Employee benefits

Defined contribution plan

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

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

Defined benefit plan

A defined benefit plan is a plan which is not a defined contribution plan. In a defined benefit plan the parameters of the benefit which an employee will receive in the future (e.g. after retirement) are estimated in advance (e.g. its amount, date of disbursement).

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

7.14 Provisions

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

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

7.15 Revenues

Revenues are recognized in the amount of likely economic benefits to be received by the Company in connection with a given transaction, provided that their amount can be estimated reliably. Revenues are recognized in the amount of the fair value of the consideration received or receivable, net of VAT and discounts.

7.16 Costs

The cost of goods for resale and finished goods sold is measured at the amount of the costs of manufacture using the method of strict identification of the actual costs of the assets sold or based on percentage shares of e.g. the shares sold etc.

7.17 Dividend

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

7.18 Finance costs

Finance costs relating to the current period are recognized in the profit/loss except for the costs that are capitalized in accordance with IAS 23. The Company capitalizes the part of finance costs which are directly related to the acquisition or development of assets recognized under inventories or open investment projects. General and specific costs relating to the funds borrowed for the purpose of acquisition or development of the qualifying assets that require a long period of preparation to be ready for planned use or disposal increase the cost of development of such assets over the time of their preparation for planned use or disposal. Revenues from temporary investments covered by special loans to be issued for the qualifying assets reduce the amount of borrowing costs that fulfil the criteria for capitalization. All other borrowing costs are recognized in the statement of comprehensive income for the period in which they were incurred.

8. Financial risk management

8.1 Financial risk factors

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

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

8.1.1 Interest rate risk

The interest rate risk is the risk resulting from changes in market interest rates to which PHN S.A. is exposed. PHN S.A. did not hedge against the risk of changes in interest rates. The Management Board observes the interest rate fluctuations on an ongoing basis and takes adequate actions. The Company's exposure to the risk of changes in interest rates is mainly related to non-current financial liabilities in respect of loans granted to the Company by a subsidiary, which bear interest based on a variable interest rate (WIBOR). Due to a low balance of interest-bearing liabilities, the Company's exposure to such risk is insignificant.

8.1.2 Credit risk

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

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

8.1.3 Liquidity risk

Liquidity risk is the risk that the Company will be unable to settle its financial liabilities when they become due. Prudent liquidity risk management by the Company involves, among other things, maintaining the adequate level of cash and an appropriate structure of current assets and liabilities. Polski Holding Nieruchomości S.A. is a holding company and it does not conduct direct operating activity other than the Company management. The main source of revenues for the Company in its capacity as a holding company comprises dividends from subsidiaries, which were not paid in 2014. In 2014 and 2013, the Company financed its operations by providing management services to its subsidiaries, which was sufficient to cover a part of the costs incurred. The operations were also financed from loans provided by subsidiaries. As at 31 December 2014, the balance of debt in respect of loans received amounted to PLN 119.1m PLN

The Company monitors its liquidity ratios on a current basis. The general liquidity ratio is calculated as the ratio of current assets to current liabilities. The level of the ratio as at the balance sheet date is as follows:

	31 December 2014	31 December 2013
Liquidity ratio	**1.07**	**2.00**

8.2 Capital risk management

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

In managing its capital risk, the Company takes decisions concerning its financial leverage level, dividend policy, issue of new shares or the repurchase and redemption or resale of shares previously issued and on the potential sale of assets to reduce debt. Similarly to other entities in the industry the Company monitors its capital risk by monitoring, among others, debt ratios. The debt ratio is calculated as net debt to the total value of capital. Net debt is calculated as the sum total of loans and borrowings (comprising current and non-current loans and borrowings recognized in the statement of financial position) less cash and cash equivalents. The total value of capital is calculated as equity disclosed in the statement of financial position together with net debt.

As at 31 December 2014 and 31 December 2013 the structure of financing ratio was as follows:

	31 December 2014	31 December 2013
Current and non-current debt	119.1	15.5
Cash and cash equivalents	(0.2)	(0.2)
Net debt	**(118.9)**	**(15.3)**

Equity	1 914.1	1 841.4
Total equity	2 033.0	1 856.7
Structure of financing ratio	**5.85%**	**0.82%**

8.3 Significant estimates and assumptions

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

Deferred income tax

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

To this end several assumptions are made in respect of the amount of the deferred tax asset. The accounting estimates referred to above comprise tax forecasts, historical values of tax expense, currently available strategies concerning the planning of the Company's operations and the dates of crystallization of individual temporary differences. Due to the fact that the above estimates may change as a result of changes in external factors, the Company may periodically adjust the value of the deferred tax asset, which in turn may have an effect on the financial position of the Company and its results.

Deferred tax assets in respect of tax losses of individual companies are recognized if, and only if, the analysis performed by the Management Board proves that the assets will be possible to utilize in the future.

Impairment write-downs of assets

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

8.4 Segment reporting

The Company operates in one operating segment, i.e. the operations of holding companies. The Management Board evaluates the Company's operations on the basis of its financial statements.

9. Property, plant and equipment

The Company did not incur any significant expenditure on property, plant and equipment in the year ended 31 December 2014 and 31 December 2013. In the year ended 31 December 2014, depreciation of property, plant and equipment amounted to PLN 0.1m.

10. Shares in subsidiaries

Non-current financial assets	31.12.2014	Disposal	Purchase	Change in impairment write-downs	31.12.2013	Purchase	Change in impairment write-downs	1.1.2013
Warszawski Holding Nieruchomości S.A.	1 539.7		38.6	93.1	1 408.0	27.3	84.0	1 296.7
Intraco S.A.	0.3	(206.8)	8.0	0.8	198.3	4.9	22.6	170.8
Budexpo Sp. z o.o.	0.1	(131.1)	0.6	(1.2)	131.8	0.4	15.3	116.1
Dalmor S.A.	1.1	(104.6)	4.5	(0.3)	101.5		(18.8)	120.3
Wrocławskie Centrum Prasowe Sp. z o.o.	(0.0)	(15.7)			15.7			15.7
PHN 5 Sp. z o.o.	104.6	(353.7)	458.3					
PHN 3 Sp. z o.o.	0.0				0.0			0.0
PHN SPV 1 Sp. z o.o.	0.0				0.0			0.0
PHN SPV 2 Sp. z o.o.	0.0				0.0			0.0
PHN SPV 3 Sp. z o.o.	0.0				0.0			0.0
PHN SPV 4 Sp. z o.o.	0.0				0.0			0.0
PHN SPV 5 Sp. z o.o.	0.0				0.0			0.0
PHN SPV 6 Sp. z o.o.	0.0				0.0			0.0

PHN SPV 7 Sp. z o.o.	0.0				0.0			0.0
PHN SPV 8 Sp. z o.o.	0.0				0.0			0.0
PHN SPV 9 Sp. z o.o.	0.0				0.0			0.0
PHN SPV 10 Sp. z o.o.	0.0				0.0			0.0
PHN SPV 11 Sp. z o.o.	0.0				0.0			0.0
PHN SPV 12 Sp. z o.o.	0.0				0.0			0.0
PHN 4 Sp. z o.o.	0.0				0.0			
PHN 4 Sp. z o.o. spółka komandytowo-akcyjna	0.0	(0.1)			0.1	0.1		
PHN SPV Aktywa Specjalne Sp. z o.o.	0.0	0.0			0.0			
PHN Property Management Sp. z o. o.	0.0				0.0			
Total	**1 645.8**	**(812.0)**	**510.0**	**92.4**	**1 855.4**	**32.7**	**103.1**	**1 719.6**

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

Due to the increase in the fair value of the net assets of the subsidiaries: Warszawski Holding Nieruchomości S.A. and Intraco S.A., in the year ended 31 December 2014 the Company reversed the impairment write-downs for the shares in these companies. The change in the value of shares in subsidiaries comprises write-downs or reversal of write-downs recorded for shares in subsidiaries.

On 14 July 2014, the Company Polski Holding Nieruchomości S.A. contributed in kind the shares held in the following subsidiaries: Intraco S.A., Dalmor S.A., Budexpo Sp. z o.o., Wrocławskie Centrum Prasowe Sp. z o.o. to the company PHN 5 Sp. z o.o.

On 22 July 2014, the Company Polski Holding Nieruchomości S.A. contributed in kind the shares held in the following subsidiaries: PHN SPV 1 Sp. z o.o., PHN SPV 2 Sp. z o.o., PHN SPV 3 Sp. z o.o., PHN SPV 8 Sp. z o.o., PHN SPV 9 Sp. z o.o., PHN SPV 10 Sp. z o.o. to the company PHN 5 Sp. z o.o.

On 23 July 2014, the Company Polski Holding Nieruchomości S.A. sold the shares held in the following subsidiaries: PHN SPV 4 Sp. z o.o., PHN SPV 5 Sp. z o.o., PHN SPV 6 Sp. z o.o., PHN SPV 7 Sp. z o.o., PHN SPV 11 Sp. z o.o. to the company PHN 3 Sp. z o.o.

On 16 September 2014, 7.7m shares in the company PHN 5 Sp. z o.o. with the total carrying value of PLN 353.7m were redeemed. The fair value of the redeemed shares (remuneration for the redeemed shares) amounted to PLN 387.4m. The gain on the redemption of shares of PLN 33.7m was recognized in the statement of comprehensive income under “Gain on redemption of shares in subsidiaries”.

In 2014, the Company acquired shares in subsidiaries in exchange for treasury shares issued (details are provided in Note 15). The purchase price was determined based on the cost of issue of treasury shares of PHN S.A., estimated on the basis of the quotations of PHN S.A. shares as at the individual days on which the shares in subsidiaries were acquired.

11. Other non-current financial assets

Other non-current financial assets comprise a part of the receivables from related entities in respect of remuneration due to the Company for the redeemed shares in the company PHN 5 Sp. z o.o.

12. Financial assets and liabilities, by type

	31 December 2014	31 December 2013
Loans and receivables	**127.7**	**0.8**
Trade receivables and other assets, excluding prepayments and receivables from the State Budget	*127.5*	*0.6*
Cash and cash equivalents	*0.2*	*0.2*
Assets measured at fair value through profit or loss	**0.0**	**0.0**
Financial assets at fair value through profit or loss	0.0	0.0
Available for sale	**0.0**	**0.0**
As at the end of the period	**127.7**	**0.8**

Trade receivables and other assets comprise receivables from related entities in respect of remuneration due to the Company for the redeemed shares in the company PHN 5 Sp. z o.o. in the amount of PLN 127.4m. As at 31 December 2014 and 31 December 2013, the fair values of financial assets and their carrying amounts as disclosed in the statement of financial position, were similar.

Liabilities measured at amortised cost	31 December 2014	31 December 2013
Loans from affiliates	119.1	15.5
Trade and other payables, excluding payables to the State Budget	1.3	1.0
As at the end of the period	**120.4**	**16.5**

As at 31 December 2014 and 31 December 2013, the fair values of financial liabilities and their carrying amounts, as disclosed in the statement of financial position, were similar.

13. Trade receivables and other assets

	31 December 2014	31 December 2013
Receivables in respect of management services	0.1	0.6
Receivables from the State Budget	0.6	1.2
Receivables in respect of redemption of shares in subsidiaries	127.4	0.0
Other	0.2	0.2
As at the end of the period	**128.3**	**2.0**

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

Cash in bank bears interest at variable interest rates whose amount depends on the rate of interest on one-day bank deposits. Current deposits are placed for various periods, from one day to one month, depending on the current demand of the Company for cash, and they bear interest at specially determined interest rates. The fair value of cash and cash equivalents as at 31 December 2014 and 31 December 2013 equals their carrying amount.

The Company had no unutilized credit facilities as at 31 December 2014 and 31 December 2013. Cash and cash equivalents recognized in the financial statements as at the balance sheet dates comprised current bank deposits.

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

	Year ended	
Changes in the working capital in the statement of cash flows	31 December 2014	31 December 2013
Change in provisions	0.3	0.0
Change in receivables	1.1	0.6
Change in liabilities	0.3	(2.3)
Total	**1.7**	**(1.7)**

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

	Year ended	
Receivables	31 December 2014	31 December 2013
Change in receivables in the statement of financial position	(126.3)	0.6
Change in investment receivables	127.4	0.0
Change in receivables in the statement of cash flows	**1.1**	**0.6**

15. Issued capital

Number of shares	31 December 2014	31 December 2013
Number of shares as at 1 January	44 599 947	43 384 003
Share issue	1 882 097	1 215 944
Number of shares as at 31 December (fully paid)	**46 482 044**	**44 599 947**

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

Shares issues in 2014 and 2013 were based on:

- ✓ Resolution No. 3 of the Company's General Shareholders Meeting of 11 October 2011 on the conditional increase in the share capital of PLN 3,884,000 by means of issuing 3,884,000 C series bearer shares with a par value of PLN 1 each, and
- ✓ Resolution No. 3 of the Company's General Shareholders Meeting of 16 April 2012 on the conditional increase in the share capital of PLN 469,000 by means of issuing 469,000 C series bearer shares with a par value of PLN 1 each.

The shares issued in 2014 and 2013 were acquired as a result of exercising rights under A series and B series subscription warrants offered free of charge to those employees of Warszawski Holding Nieruchomości S.A., Intraco S.A., Budexpo Sp. z o.o. and Dalmor S.A. who, in accordance with the provisions of Art. 36 and subsequent of the Commercialization and Privatisation Act of 31 August 1996, were entitled to acquire the shares in the respective companies free of charge.

16. Share premium

In 2014, the Company purchased shares in subsidiaries in exchange for own shares issued (for details, see note 15). The acquisition price of these shares was determined at the level of the cost of issue of PHN S.A.'s shares based on the quotation of PHN S.A.'s shares on the dates when shares in subsidiaries were purchased. The excess of purchase price over the par value of shares of PLN 1 per share was recognized as share premium.

17. Non-current and current liabilities

	31 December 2014	31 December 2013
Non-current loans from related entities	0.0	15.5
Current loans from related entities	119.1	0.0
Total liabilities	**119.1**	**15.5**

Loans bear interest based on the variable interest rate WIBOR 1M plus margin. Total liabilities were repaid as at the date of preparation of these financial statements.

18. Operating income and expenses

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

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

19. Finance costs

Finance costs comprised interest on loans received from related entities.

20. Costs by type

	Year ended	
	31 December 2014	31 December 2013
Depreciation and amortization	0.1	0.0
Materials and energy used	0.0	0.1
External services	2.1	3.6
Taxes and fees	0.2	0.3
Wages and salaries, and other employee benefits	4.4	4.6
Other costs by type	0.1	0.1
Total operating expenses	**6.9**	**8.7**

21. Distribution of the Company's profit for 2013

The Annual General Shareholders' Meeting of Polski Holding Nieruchomości S.A. earmarked the total net profit for 2013 for payment of dividend to the shareholders by resolution no. 6 of 11 April 2014.

22. Earnings per share

Basic and diluted earnings per share	Year ended	
	31 December 2014	31 December 2013
Profit attributable to the Shareholders of the Company (in PLN million)	120.8	99.0
Weighted average number of ordinary shares (in million pcs)	46.0	43.7
Basic and diluted earnings per share (in PLN)	**2.62 PLN**	**2.26 PLN**

23. Dividends paid and proposed

In 2014, the Company paid dividend to the shareholders in the amount of PLN 99.8m, i.e. PLN 2.16 per one share. 46,226,614 shares of the Company participated in the dividend.

The Company's Management Board has not made a decision yet as to the recommendation concerning the net profit distribution for the year ended 31 December 2014.

24. Capital commitments

The Company had no significant capital commitments as at 31 December 2014 and 31 December 2013.

25. Contingent liabilities

The Company had no significant contingent liabilities as at 31 December 2014 and 31 December 2013.

26. Transactions with related parties

Transactions with subsidiaries:

	Year ended	
	31 December 2014	31 December 2013
Revenues from management services	5.1	4.8
Finance costs	(3.0)	(0.6)
Acquisition of shares in subsidiaries	458.3	0.0
Disposal of shares in subsidiaries	(458.4)	0.0
Redemption of shares of subsidiaries	(353.7)	0.0

	31 December 2014	31 December 2013
Trade receivables	0.1	0.6
Receivables in respect of share redemption	387.4	0.0
Trade payables	0.0	0.0
Loans	(119.1)	(15.5)
Guarantees and sureties granted	0.0	0.0

All transactions concluded by the Company with related entities in 2014 and 2013 were concluded on an arm's length basis.

26.1 The parent company of the whole Group

As at 31 December 2014, the Company's parent was the State Treasury. There were no transactions between the Company and the State Treasury both in the financial year ended 31 December 2014 and in the financial year ended 31 December 2013.

26.2 Remuneration of the Management Board and the Supervisory Board

	Year ended	
	31 December 2014	31 December 2013
Remuneration of the Management Board	2.3	2.2
Remuneration of the Supervisory Board	0.3	0.3
Total remuneration of key management members	**2.6**	**2.5**

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

The table below presents the remuneration of the registered audit company paid or due for the year ended 31 December 2014 and the year ended 31 December 2013, by type of services:

	Year ended	
	31 December 2014*	31 December 2013**
Audit and review of financial statements	0.2	0.3
Other assurance services	0.0	0.1
Total	**0.2**	**0.4**

* Refers to PricewaterhouseCoopers Sp. z o. o. The agreement with a registered audit company for the audit of the financial statements for the year ended 31 December 2014 was concluded on 23 May 2014.

** Refers to Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.

28. Other information

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

Some of the holders of non-controlling interest in Warszawski Holding Nieruchomości S.A. demanded a mandatory repurchase of the total of 234,998 shares by PHN S.A. A registered auditor appointed by the court determined the market price of these shares at PLN 25.45 per share. Some of the minority shareholders challenged the share price determined by the auditor. As at the date of preparation of these financial statements, the claim challenging the share price had not yet been considered by the court. Consequently, the final repurchase price is not yet known.

29. Post balance sheet date events

On 23 January 2015, Polski Holding Nieruchomości S.A. and PHN SPV 4 Sp. z o.o. concluded a joint venture agreement with Parzniew Partners B.V. for the execution of a joint project consisting in constructing a warehouse park in the Brwinów municipality. The project will be executed by PHN SPV 29 Sp. z o.o. (subsequently renamed to Parzniew Logistics Center Infrastructure Sp. z o.o.) and PHN SPV 30 Sp. z o.o. (subsequently renamed to Parzniew Logistics Center 1 Sp. z o.o.). Polski Holding Nieruchomości S.A. and Parzniew Partners B.V. each hold a 50% interest in Parzniew Logistics Center Infrastructure Sp. z o.o. and Parzniew Logistics Center 1 Sp. z o.o.

In January 2015, the Company signed an agreement with PHN 5 Sp. z o.o., on the basis of which the amount due in respect of redemption of shares in the share capital of PHN 5 Sp. z o.o. will be settled partly in cash and partly by transferring to Polski Holding Nieruchomości S.A. the amounts due to PHN 5 Sp. z o.o. from Warszawski Holding Nieruchomości S.A.

On 26 January 2015, the Company repaid the loans received from related entities whose value as at the balance sheet date amounted to PLN 119.1m.

Except for the events discussed above, no material events which should have been disclosed in these consolidated financial statements occurred between the balance sheet date and the date of approval of these consolidated financial statements.

These financial statements were approved by the Management Board of the Parent Company on 16 March 2015.

Włodzimierz Piotr Stasiak
Member of the Management Board in charge of finance

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

Artur Lebiedziński
President of the Management Board

Grzegorz Grotek
Responsible for preparing the financial statements

POLSKI HOLDING NIERUCHOMOŚCI

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

Polski Holding
Nieruchomości S.A.

B. Directors' Report

1. Basic information about the Company

Polski Holding Nieruchomości S.A. ("the Company") was established on 25 March 2011 as the parent (holding) company for the management of the Polski Holding Nieruchomości S.A. Group ("the Group").

Polski Holding Nieruchomości S.A. is a holding company, which is a direct or indirect parent of 55 entities. The main functions of the Company comprise managing the Group, setting strategies and plans for the whole Group and coordinating the activities of the subsidiaries.

2. Group structure

The current structure of the Group of which the Company is the parent is as follows:

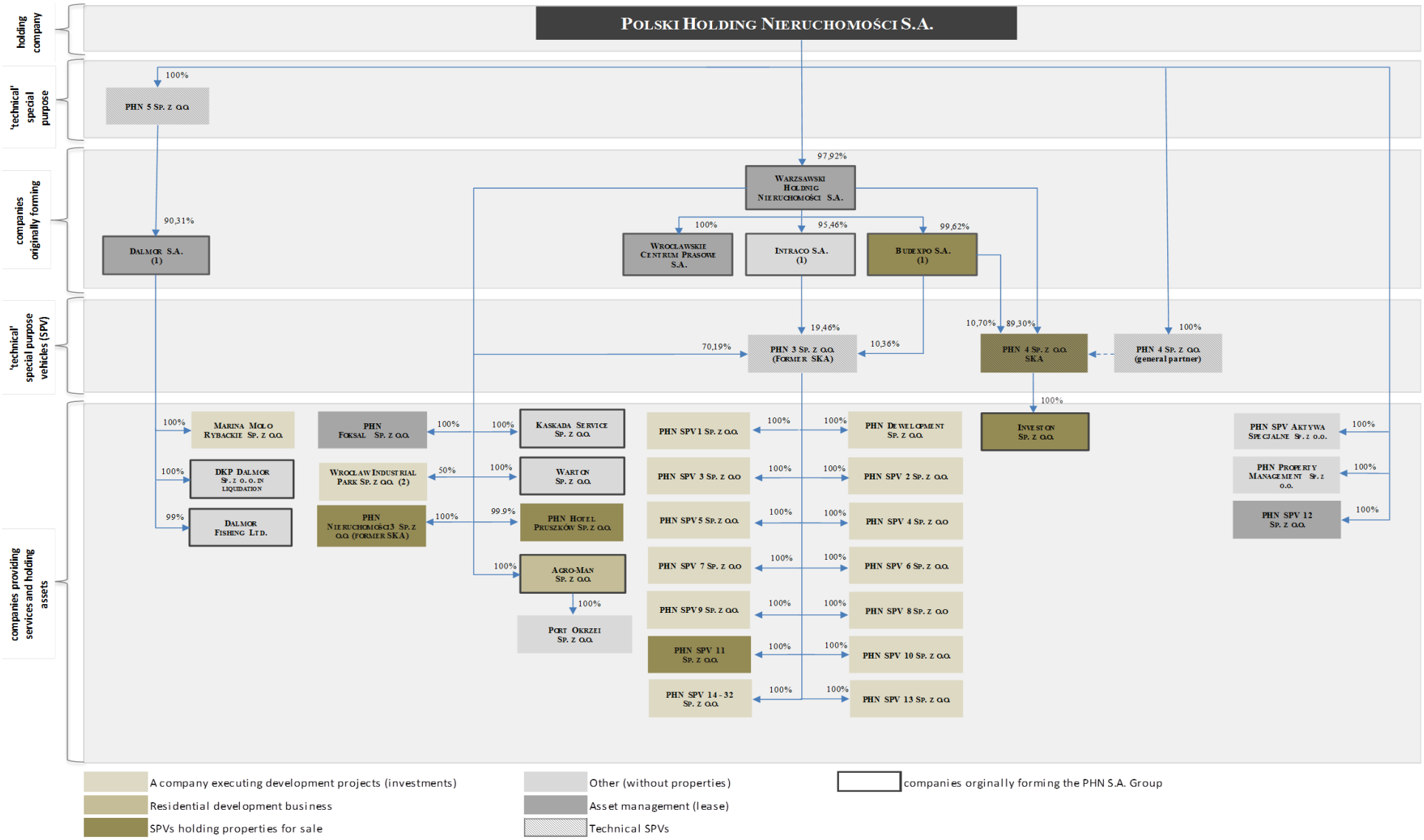
Entity	Shareholder	Share in capital and voting rights	
		31 December 2014	31 December 2013
Polski Holding Nieruchomości S.A. (PHN S.A.) – parent company			
Subsidiaries			
Warszawski Holding Nieruchomości S.A. (WHN S.A.)	PHN S.A.	97.92%	93.96%
INTRACO S.A.	WHN S.A.	95.46%	0.00%
	PHN S.A.	0.28%	89.21%
BUDEXPO S.A.	WHN S.A.	99.62%	0.00%
	PHN S.A.	0.12%	99.10%
Dalmor S.A	PHN 5 Sp. z o.o.	90.31%	0.00%
	PHN S.A.	1.21%	86.94%
Wrocławskie Centrum Prasowe Sp. z o.o.	WHN S.A.	100.00%	0.00%
	PHN S.A.	0.00%	100.00%
PHN Nieruchomości 3 Sp. z o.o.	WHN S.A.	100.00%	99.9996%
	PHN Foksal Sp. z o.o.	0.00%	0.00%
PHN Foksal Sp. z o.o.	WHN S.A.	100.00%	100.00%
Agro-Man Sp. z o.o.	WHN S.A.	100.00%	100.00%
Port Okrzei Sp. z o.o.	Agro-Man Sp. z o.o.	100.00%	100.00%
Investon Sp. z o. o.	PHN 4 Sp. z o.o. SKA	100.00%	0.00%
	WHN S.A.	0.00%	100.00%
Warton Sp. z o.o.	WHN S.A.	100.00%	100.00%
PHN 3 Sp. z o.o.	WHN S.A.	70.186%	70.186%
	Intraco S.A.	19.456%	19.456%
	Budexpo S.A.	10.358%	10.358%
Kaskada Service Sp. z o.o.	WHN S.A.	100.00%	100.00%
DKP Dalmor Sp. z o.o. under liquidation	Dalmor S.A.	100.00%	100.00%
Dalmor Fishing LTD	Dalmor S.A.	99.00%	99.00%
PHN SPV 1 Sp. z o.o.	PHN 3 Sp. z o.o.	100.00%	0.00%
	PHN S.A.	0.00%	100.00%
PHN SPV 2 Sp. z o.o.	PHN 3 Sp. z o.o.	100.00%	0.00%
	PHN S.A.	0.00%	100.00%
PHN SPV 3 Sp. z o.o.	PHN 3 Sp. z o.o.	100.00%	0.00%
	PHN S.A.	0.00%	100.00%
PHN SPV 4 Sp. z o.o.	PHN 3 Sp. z o.o.	100.00%	0.00%
	PHN S.A.	0.00%	100.00%
PHN SPV 5 Sp. z o.o.	PHN 3 Sp. z o.o.	100.00%	0.00%
	PHN S.A.	0.00%	100.00%
PHN SPV 6 Sp. z o.o.	PHN 3 Sp. z o.o.	100.00%	0.00%
	PHN S.A.	0.00%	100.00%
PHN SPV 7 Sp. z o.o.	PHN 3 Sp. z o.o.	100.00%	0.00%
	PHN S.A.	0.00%	100.00%
PHN SPV 8 Sp. z o.o.	PHN 3 Sp. z o.o.	100.00%	0.00%

	PHN S.A.	0.00%	100.00%
PHN SPV 9 Sp. z o.o.	PHN 3 Sp. z o.o.	100.00%	0.00%
	PHN S.A.	0.00%	100.00%
PHN SPV 10 Sp. z o.o.	PHN 3 Sp. z o.o.	100.00%	0.00%
	PHN S.A.	0.00%	100.00%
PHN SPV 11 Sp. z o.o.	PHN 3 Sp. z o.o.	100.00%	0.00%
	PHN S.A.	0.00%	100.00%
PHN SPV 12 Sp. z o.o.	PHN S.A.	100.00%	100.00%
PHN 4 Sp. z o.o.	PHN S.A.	100.00%	100.00%
PHN 4 Sp. z o.o. spółka komandytowo - akcyjna	WHN S.A.	89.30%	0.00%
	Budexpo S.A.	10.70%	0.00%
	PHN S.A.	0.00%	100.00%

In 2014. 26 entities joined the Group:

PHN SPV Aktywa Specjalne Sp. z o.o.	PHN S.A.	100.00%
PHN 5 Sp. z o.o.	PHN S.A.	100.00%
PHN Property Management Sp. z o. o.	PHN S.A.	100.00%
PHN Dewelopment Sp. z o. o.	PHN 3 Sp. z o.o.	100.00%
PHN Hotel Pruszków Sp. z o.o.	WHN S.A.	99.90%
	PHN 3 Sp. z o.o.	0.10%
PHN SPV 13 Sp. z o.o.	PHN 3 Sp. z o.o.	100.00%
PHN SPV 14 Sp. z o.o.	PHN 3 Sp. z o.o.	100.00%
PHN SPV 15 Sp. z o.o.	PHN 3 Sp. z o.o.	100.00%
PHN SPV 16 Sp. z o.o.	PHN 3 Sp. z o.o.	100.00%
PHN SPV 17 Sp. z o.o.	PHN 3 Sp. z o.o.	100.00%
PHN SPV 18 Sp. z o.o.	PHN 3 Sp. z o.o.	100.00%
PHN SPV 19 Sp. z o.o.	PHN 3 Sp. z o.o.	100.00%
PHN SPV 20 Sp. z o.o.	PHN 3 Sp. z o.o.	100.00%
PHN SPV 21 Sp. z o.o.	PHN 3 Sp. z o.o.	100.00%
PHN SPV 22 Sp. z o.o.	PHN 3 Sp. z o.o.	100.00%
PHN SPV 23 Sp. z o.o.	PHN 3 Sp. z o.o.	100.00%
PHN SPV 24 Sp. z o.o.	PHN 3 Sp. z o.o.	100.00%
PHN SPV 25 Sp. z o.o.	PHN 3 Sp. z o.o.	100.00%
PHN SPV 26 Sp. z o.o.	PHN 3 Sp. z o.o.	100.00%
PHN SPV 27 Sp. z o.o.	PHN 3 Sp. z o.o.	100.00%
PHN SPV 28 Sp. z o.o.	PHN 3 Sp. z o.o.	100.00%
PHN SPV 29 Sp. z o.o.	PHN 3 Sp. z o.o.	100.00%
PHN SPV 30 Sp. z o.o.	PHN 3 Sp. z o.o.	100.00%
PHN SPV 31 Sp. z o.o.	PHN 3 Sp. z o.o.	100.00%
PHN SPV 32 Sp. z o.o.	PHN 3 Sp. z o.o.	100.00%
Marina Molo Rybackie Sp. z o.o.	Dalmor S.A.	100.00%

Moreover, the Group has investments in a jointly-controlled entity, Wrocław Industrial Park Sp. z o.o., in which it took up 50% of shares.



(1) companies in which PHN S.A. holds shares, DALMOR: 1.21%; BUDEXPO: 0.12%; INTRACO: 0.28%

(2) JV with Segro B.V. (50%)

3. Information about the Company's activities

Due to the fact that the Company's core operations are operations of holding companies, and the Group's functions are performed by the Company's subsidiaries, the following description relates to the activities of all Group entities.

4. Information about the Group's activities

4.1. Group strategy

Pursuant to the strategy of the Group, its overriding objective is to improve the quality of its real estate portfolio and increase the effectiveness of asset management. On this basis, the shareholders' capital gains should grow. In accordance with the strategic assumptions, the Group's value will be built through: (1) optimum utilization of the real estate potential to satisfy the customers' needs, (2) change in the investment portfolio ensuring high return on investments, (3) commitment and professionalism of the managers and employees, and (4) respect for the environment. To achieve this objective, the Group intends to pursue the following strategic initiatives:

- ✓ optimization of the structure of the real estate portfolio;
- ✓ improvement of the effectiveness of asset management;
- ✓ further improvement of the effectiveness of the Group's operation; and
- ✓ optimization of the sources of financing its operations.

Optimization of the structure of the Group's real estate portfolio

The Group classifies its real estate into the following categories:

- ✓ commercial properties generating revenues from lease, which are to remain in the Group's real estate portfolio; some of these assets will undergo modernization or optimization with the use of limited capital expenditure;
- ✓ properties dedicated to commercial projects as part of the investment programme (including both existing commercial properties generating revenues from lease and land earmarked for development projects), with a potential for investment and growth of value;
- ✓ residential development projects - completed, under construction and planned, which will be sold after their completion;
- ✓ properties which are unrelated to the target profile of the Group's activity and planned for sale; these are mainly residential properties generating revenues from lease and land currently included in the Group's real estate portfolio.
- ✓ **In connection with the optimization of the structure of the Group's real estate portfolio, the following actions are mainly planned:**
- ✓ Concentration of the activity on commercial properties located exclusively in Poland, in Warsaw and in major regional cities. The Group plans to operate in a number of sectors, including: (i) office properties representing a major part of the portfolio, (ii) logistic space, held exclusively with international partners, (iii) retail space tailored to the needs of selected tenants, and (iv) selected residential development projects on the Group's land

Execution of existing and planned investment projects in order to obtain top class facilities, which will provide a stable source of revenues in a long- term perspective;

Completion of existing or planned residential development projects within the present land bank and other real estate with development potential;

Sale of real estate earmarked for sale in an organized and effective manner, according to a predetermined plan and schedule; and

Purchase of selected real estate, provided that such a purchase creates additional value for the shareholders. To achieve this, the Group will carefully analyze the real estate market in Poland and assess potential real estate to be purchased, in particular on the basis of the following criteria: (i) compliance with the Group's strategy and the target structure of the real estate portfolio; (ii) potential for creating value for the shareholders and (iii) financing availability at a given time.

Improvement of the effectiveness of the Group's asset management activities

The Group plans to focus its asset management activity on actions aimed at achieving a higher recurring net operating profit from the existing real estate portfolio generating lease revenues and a further increase in the real estate portfolio value as a result of the execution of an investment programme. The Group's strategic objective in the medium and long term is to increase net operating profit generated by the Group's target investment portfolio to the market levels.

The planned actions will primarily focus on:

Ensuring that lease agreements are extended on good terms that generate value for the Group by further active monitoring of the market and negotiating with the existing tenants in order to extend the lessee agreements binding at the time at higher prices, as well as conducting marketing activities to attract new big and medium-sized corporate tenants;

Concluding lease agreements for selected real estate for specified periods of at least five years in order to increase the stability of the tenant base and support uninterrupted lease regardless of changes on the real estate market during the agreement term;

Gradual transfer of a major part of costs connected with real estate to tenants, especially the costs of real estate maintenance;

Exploiting the potential associated with future expansion of space leased by the existing tenants of the Group through active monitoring of the tenants and, if required, offering them various solutions, including space in other properties owned by the Group;

Improving the standard of the Group's real estate by performing planned repairs and modernizations to retain the present tenants and acquire new ones, especially corporate tenants;

Acquiring new stable corporate tenants, who may contribute to a considerable improvement in the structure of the Group's tenants and with whom stable long-term business relationships may be maintained, among others, through executing selected projects addressed to specific tenants, in particular with regard to retail and logistic space, and

Maintaining the extent to which the Group outsources its non-core functions, particularly the services associated with ongoing management and maintenance of real estate and buildings, such as, among others, security guard services, cleaning, repair and maintenance services, and significant extension of the cooperation with renowned real estate agencies in order to commercialize the planned modern office space.

Further improvement of the effectiveness of the Group's operations

The Group aims to continue improving its operating effectiveness by implementing the following initiatives to optimize its corporate structure and cost basis:

Continuation of restructuring, including a change in the Group's organizational structure and allocation of real estate to special purpose vehicles (SPV). The Group intends to analyze its corporate structure to examine the potential for increasing the value for the shareholders, also through consolidation of selected companies and tax optimization. The Group commenced a programme of reorganization of its corporate structure, involving a partial decrease of the deferred tax provision which is recognized in the Group's financial statements mainly on the basis of the difference between the real estate value as at the reporting date for tax and accounting purposes. The Group intends to continue the reorganization process and the deferred tax provision may be decreased further.

Optimization of the sources of financing of the Group's operations

The Group will aim at increasing the proportion of external funds used to finance its assets in order to increase return on equity by:

Obtaining external financing for the purchase of real estate, execution of new investment projects and refinancing of profitable properties currently held in the Group's portfolio.

At present, the Group finances its core business activity from own funds (generated from operations and proceeds from the disinvestment programme). In the following years, the Group intends to increase the proportion of external financing; its aim is to maintain consolidated loan to value ratios (LTV) at 50%. At the level of investment project design, the Group plans to execute projects in separate companies, assuming financing development period at the level of companies on market conditions (which at present amounts to approx. 70% LTC).

The Group allows the possibility of obtaining external financing from various sources, including both bank loans and issues of debt securities. The Group's financial needs, the current debt level and the availability and terms and conditions of external financing will be analyzed from time to time.

The Group also plans to execute the largest commercial investment projects as part of joint ventures with business partners whose participation will include providing substantial financing for joint projects. This is expected to reduce the Group's financial commitment to the execution of its investment programme. This strategy will give the Group significant flexibility in selecting the method and type of financing.

Implementation of a centralized model for obtaining external financing and business partners to perform joint ventures. This initiative will provide the Group with access to cash flows generated in the entire Group and should contribute to reduction of direct financial costs;

Hedging the Group against risks of fluctuations in foreign exchange rates. Although the share of lease revenues denominated in foreign currency or tied to such currency in the Group's revenues is not significant, the Group intends, in line with its conservative financing strategy, to take actions to protect its business against adverse effect of fluctuations of foreign exchange rates, especially EUR and USD, when executing new commercial projects or buying new real estate. To achieve this objective, the Group will continue to follow a conservative hedging strategy, using financial instruments available on the market, provided that it does not increase the Group's exposure.

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4.2. Description of the Group's activities

The Group, established in 2011, is one of the biggest (with regard to the market value of its real estate portfolio) entities owning and managing commercial and residential real estate in Poland. The core activities of the Group include the management of the Group's commercial real estate portfolio. In order to focus on its core business and maximize the profit, the Group continues the restructuring of its real estate portfolio, including:

- ✓ optimization of the usage of the property 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 real estate, as well as some land properties.

For management purposes, the Group classifies its business activity based on products manufactured and services provided. Consequently, there are following operating segments for reporting purposes:

- ✓ lease of office and retail space, warehouse and logistic space, residential and other properties,
- ✓ development business- construction and sale of residential premises,
- ✓ fishing activity (discontinued operations) – performed by DKP Dalmor Sp. z o.o. (currently under liquidation)

The activity within the above operating segments is performed in Poland, except for the discontinued fishing activity, which was conducted abroad. Other business comprises other revenues and costs, in particular revenues and costs from the activities which as at the date of this report is no longer continued by the Group – including port and cooling operations and hotel business.

The Group's Management Board monitors results of operating activity at the level of its operating segments to assess the results and make decisions about resource allocation. The Group analyzes results of a segment to the level of the result on operating activity. The Group does not allocate to segments any assets, liabilities, revenues or costs of the parent company acting as a financial holding.

4.3. The Group's real estate portfolio

As at 31 December 2014, the Group's real estate portfolio comprised:

- 131 properties with clear legal status,
- 9 properties with legal defects, but with a potential for a positive resolution.

Furthermore, the Group held 22 properties with legal defects (with little potential for a positive resolution) and shares in the investment project undertaken with an external partner on a property located in Wrocław - Psie Pole (JV project).

In 2014, the Group re-allocated its properties between the above-mentioned legal categories. As a result of a review of its properties, the Group determined that the legal status of two properties improved, and the legal status of one property deteriorated. As a result, two properties were transferred from the "with legal defects with little potential for positive resolution" category to the "with legal defects and with a potential for positive resolution" category, and one property was transferred from the "with clear legal status" category to the "with legal defects with little potential for positive resolution" category.

The Group classifies its real estate basic portfolio (with clear legal status and with legal defects and potential for positive resolution) into two major categories: 1) real estate generating revenues from lease and 2) investment projects and the land bank. The real estate generating revenues from lease primarily includes office, retail, logistic, residential and other properties.

According to the above classification as at 31 December 2014 the Group had:

- 99 properties generating revenues from lease,
- 41 properties in the investment projects and the land bank category.

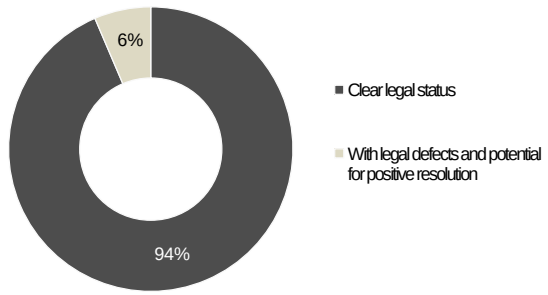
In the period from 1 January to 31 December 2014, the Group sold 8 properties. Five of them were located in Warsaw (Willowa, Rakowiecka, Iwicka, Okrzei and the residential development project Lewandów Leśny), and the others were located in Zakopane, Łagów and Parzniew (Parzniew III). The Group also signed three preliminary sale agreements.

After 31 December 2014, the Group sold one property and signed one preliminary sale agreement.

Fair value of the portfolio The fair value of the Group's real estate portfolio as at 31 December 2014 amounted to PLN 2,005.7 million. At the same time, the value of the properties with legal defects with little potential for positive resolution amounted to PLN 146.2 million. In the case of two properties with unclear legal status, the Group divided their fair

value and allocated the resulting amounts to the appropriate legal categories.

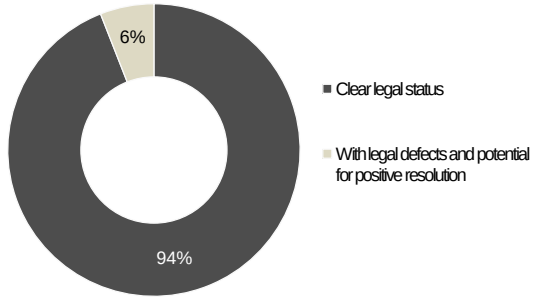
Portfolio structure by number of properties
% of the total portfolio



* the item does not include 22 properties with unclear legal status

The structure of the Group's portfolio by number and by fair value of the properties is shown in the following charts.

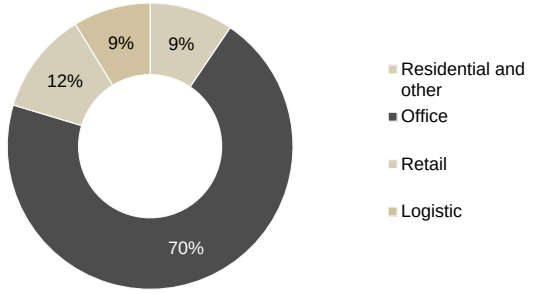
Real estate portfolio structure by the fair value
% całości



* the item does not include 22 properties with unclear legal status

As of 31 December 2014, the fair value of properties generating lease revenues amounted to PLN 1,443.8 million, and the value of investment projects and land bank amounted to PLN 561.8 million. The structure of properties generating lease revenues by value is presented in following chart.

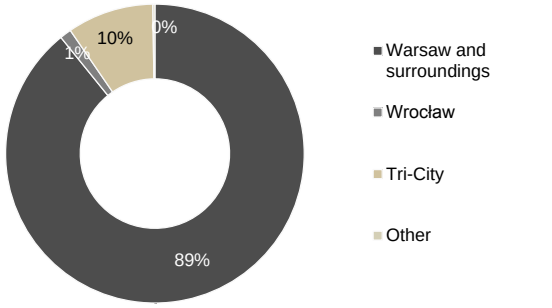
Real estate portfolio structure by the fair value
% of the total portfolio



* the item does not include 22 properties with unclear legal status

Geographical structure. A major part of the Group's properties, with a significant market value, is located in and around Warsaw. The Group also has properties in Gdynia and Gdańsk, Wrocław, Łódź and in other, smaller towns. The geographical structure of properties generating lease revenues is presented on the following chart.

Geographical structure of the real estate portfolio
% of the fair value



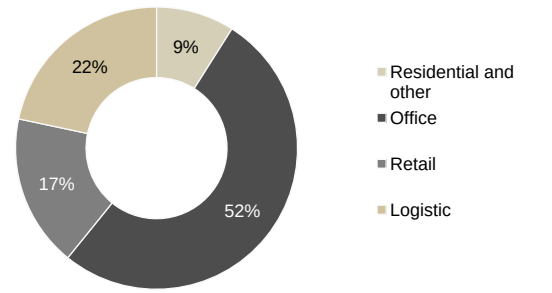
* the item does not include 22 properties with unclear legal status

GLA and vacancy ratio. Gross leasable area (GLA) of the Group's property with clear legal status and with legal defects and potential for positive resolution amounted to nearly 301 thousand m^2. The vacancy ratio for this portfolio was 26.1%. It was calculated as the share of leased space in GLA less space designated for the Group's own use and space permanently not leased.

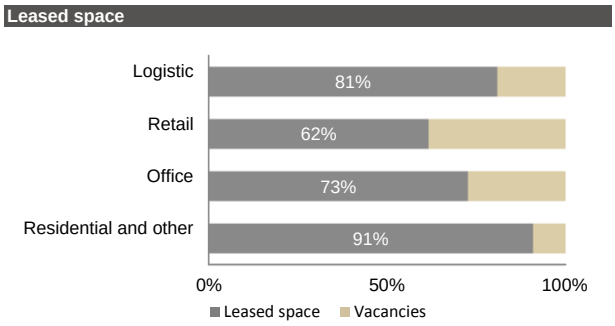
Gross leasable area of the properties that the Group plans to retain in its portfolio exceeded 70 thousand m^2, and the vacancy ratio amounted to 25.3%. If the commercialization of the property at Krywulta 2 (formerly Foksal 10a) is completed, the vacancy ratio will amount to 20.3%.

The following charts present the GLA structure and leased space ratios for properties generating lease revenues.

Real estate portfolio structure by GLA
% of the total portfolio



* the item does not include 22 properties with unclear legal status



* the % shown represents the ratio of leased space to GLA less space designated for the Group's own use and space permanently not leased

** the item does not include 22 properties with unclear legal status

Land. The area of land available to the Group amounted to 697 ha as at 31 December 2014. The Group plans to earmark land properties for development or for sale.

4.4. Markets and structure of customers and suppliers

Poland is the main market on which the Group operates. The Group has the strongest position in the Warsaw agglomeration, as a result of historical circumstances – possessing the biggest number of properties. Other important places of business are the Gdańsk, Wrocław and Łódź agglomerations.

The Group provides services to a wide range of institutional clients, companies, state institutions and individuals in the segment of lease and rental of properties.

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. Properties of B and C class, residential properties, residencies used for office purposes and diplomatic outposts represent the office areas portfolio. The target group of the office space segment comprises mainly small and medium enterprises, both domestic and with foreign capital. Diplomatic representations are a significant group of the Group's customers.

Retail space. The retail areas offered by the Group comprise mainly small areas in commercial complexes and in the Shopping Centre at Bartycka 26 street in Warsaw. The Group's offer is addressed to small and medium entrepreneurs conducting construction, fashion, catering, and pharmaceutical business.

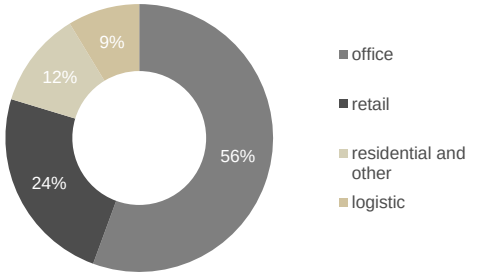
Logistic space. The biggest logistic area offered by the Group is located in Port Rybacki, Gdynia. The offer is addressed to marine carriers. Other locations comprise medium-sized areas which are usually used by office and retail tenants as additional space necessary for their business activities.

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

4.5. Tenants

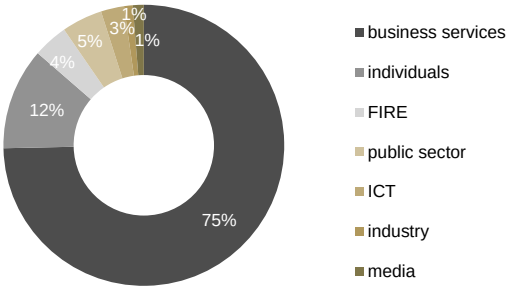
The structure of the Group's tenants is highly differentiated; therefore, the Group is not exposed to any significant risk associated with a single tenant or a group of tenants. As at 31 December 2014, the average leased area per one tenant was approximately 164 m^2, and the total number of tenants was stable. As at 31 December 2014, the Group's space was leased to 1,196 tenants. The representatives of business services sector represented the most numerous group.

Structure of tenants by type of leased space
% of the total number of tenants *



* the item does not include 22 propertes with unclear legal status

Structure of tenants by sector
% of the total number of tenants *

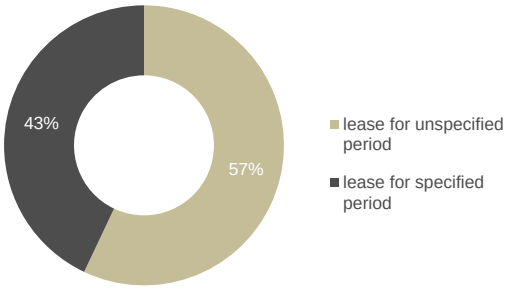


FIRE – financial services, insurance and real estate
ICT – information, communication and technology

* the item does not include 22 properties with unclear legal status

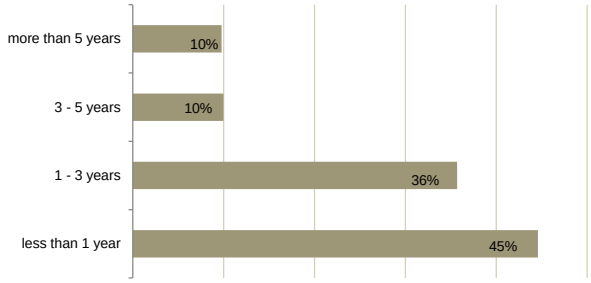
Although new lease agreements are usually concluded for a specified period, about 57% of the existing agreements are concluded for an unspecified period. The tenants' structure by lease term is presented on the following two graphs:

Structure of tenants by term of agreemenet
% GLA *



* the item does not include 22 properties with unclear legal status

Structure of tenants by period of lease
% of agreements concluded for specified period



In the year ended 31 December 20143, the ten biggest tenants in terms of lease revenues comprised (in alphabetical order): the Agricultural Property Agency (Agencja Nieruchomości Rolnych), ALSTOM Power Sp. z o.o., the Office of the Inspector General for Personal Data Protection (Biuro Generalnego Inspektora Ochrony Danych Osobowych), the Second Mazowiecki Tax Office (Drugi Mazowiecki Urząd Skarbowy), The RENE GOSCINNY French Secondary School in Warsaw, the French Embassy in Poland, the City of Warsaw, Netia S.A., the State Fund for Rehabilitation of the Disabled (Państwowy Fundusz Rehabilitacji Osób Niepełnosprawnych), Poczta Polska S.A., Wojskowa Agencja Mieszkaniowa.

4.6. The structure of the Group's suppliers

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

- ✓ construction (in relation to investment and development projects),
- ✓ repairs,
- ✓ provision of utilities,
- ✓ advisory - legal, business, technical,
- ✓ property management
- ✓ cleaning,
- ✓ security.

Due to a large base of suppliers, the Group is not dependent on a single supplier. In 2014, the value of business with any single supplier did not exceed 10% of Group revenues.

4.7. Changes in the basic principles of management of the parent company and the Group

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

In the years 2011 - 2014 the Group introduced extensive changes in the management principles consisting primarily of:

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

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

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

5. Financial situation

5.1. Analysis of the statement of financial position

As at 31 December 2014, the Company's assets amounted to PLN 2,034.9m as compared to PLN 1,858.0m as at 31 December 2013 (an increase of 9.5%). Non-current assets amounted to PLN 1,906.4m and represented 93.7% of total assets, which comprised mainly non-current financial assets, i.e. shares in subsidiaries of PLN 1,645.8m and other non-current financial assets of PLN 260m. Current assets comprised mainly trade receivables and other assets. The increase in the value of the Company's non-current assets by 2.7% compared with the balance as at 31 December 2013 was mainly a result of reversal of impairment write-downs in respect of shares in subsidiaries and the purchase of shares in subsidiaries, which was partly offset by disposal and redemption of shares in subsidiaries. The increase in the value of current assets, on the other hand, was due to an increase in the receivables, mainly in respect of redemption of shares in subsidiaries, of PLN 127.4m

The Company's equity as at 31 December 2014 amounted to PLN 1,914.1m, as compared with PLN 1,841.4m in the previous year. This change was due to the net profit of PLN 120.8m earned in 2014, the issue of shares of PLN 51.7m and the appropriation of the amount of PLN 99.8m for the payment of dividend.

5.2. Analysis of the statement of comprehensive income

In the financial year 2014, the Company earned a net profit of PLN 120.8m, as compared with PLN 99m in the previous year.

In both years, the change in the value of shares in subsidiaries had the biggest effect on the net profit. In 2014, it amounted to PLN 92.4m as compared with PLN 103.1m in 2013. Moreover, in 2014 the Company recognized a gain on redemption of shares in subsidiaries.

Administrative and selling expenses in 2014 amounted to PLN 4.3m as compared with PLN 5.9m in 2013 and their decrease was mainly due to lower costs of privatization and restructuring.

5.3. Analysis of the statement of cash flows

In 2014, the Company generated negative cash flows from operating activities of PLN 0.8m, which was mainly due to the repayment of liabilities.

In 2014, the Company generated positive cash flows from financing activities of PLN 0.8m due to taking out loans in the amount of PLN 100.6m and payment of dividend of PLN 99.8m.

6. Presentation of differences between the actual financial results and published forecasts

The Group did not publish financial forecasts.

7. Assessment of financial resources management

Profitability ratios

	31 December 2014	31 December 2013
Return on total assets [1]	**5.9%**	5.3%
Return on equity [2]	**6.3%**	5.4%

1] Net profit / Assets
[2] Net profit / Equity

The increase in the ratios in 2014 compared with 2013 was mainly due to a higher net profit (PLN 120.8m in 2014 as compared with PLN 99m in 2013).

Liquidity ratios

	31 December 2014	31 December 2014
Liquidity I ratio [1]	**1.1**	0.2
Liquidity II ratio [2]	**1.1**	2.0

[1] Current financial assets and cash and cash equivalents / Current liabilities
[2] Current assets – inventories / Current liabilities

The liquidity I ratio as at 31 December 2014 amounted to 1.1 as compared with 0.2 as at 31 December 2013, and the liquidity ratio II amounted to 1.1 as compared with 2.0 as at 31 December 2013. The changes in these ratios were due to the increase in

the balance of current financial assets, which was partly offset with an increase in current liabilities

Debt ratios

	31 December 2014	31 December 2014
Debt ratio [1]	**5.9%**	0.9%
Debt to equity ratio [2]	**94.1%**	99.1%

[1] (Assets - Equity) / Assets
[2] Equity / Assets

The Company's debt ratio as at 31 December 2014 and as at 31 December 2013 was low and amounted to 5.9% and 0.9%, respectively. The increase in the debt ratio was due to an increase in the amount of liabilities to related entities in respect of loans. At the same time, the Company maintained a high level of debt to equity ratio: 94.1% as at 31 December 2014 and 99.1% as at 31 December 2013.

8. Major risk factors and aims and methods of financial risk management

The Group does not have all permits or consents required in connection with some of the buildings owned

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

In some cases, due to the condition of a building, its legalization shall be impossible without performing a major repair or other construction work, involving significant capital expenditure on the part of the Group. Moreover, the administration authorities may impose on Group Companies administrative penalties and fines for present or past violations of administrative requirements. In consequence, the Group may also have to terminate rental agreements for such buildings or the Group's tenants may be able to terminate their agreements.

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

The Group uses some of its buildings in a manner inconsistent with the relevant administrative decisions relating to their use.

The Group uses some of its buildings in a manner inconsistent with their purpose as notified to the public administration authorities or defined in the administrative or other decisions. Moreover, the Group is unable to confirm that all its properties meet all the technical requirements associated with the purposes for which they are used, including the fire safety, work safety and sanitary conditions that must be met by buildings used for such purposes. These risks result primarily from: (i) the nature of the Group's portfolio, which includes many buildings erected several dozen years ago; (ii) the long operating history of the Group companies and their legal predecessors, as well as the organizational and corporate changes affecting the Group companies and their legal predecessors in the past; (iii) irregularities resulting from actions of third parties (e.g. former lessees and tenants of real estate currently owned by the Group or former owners or tenants of such real estate before it became a part of the Group's portfolio); (iv) human errors, including errors of the Group's employees; and (v) unclear laws or their wrong interpretation.

Not more than 70 of the Group's buildings rented as office space, including not more than 41 buildings that are considered to be free from legal defects or that have legal defects, but there is a potential for a positive resolution, with the gross leasable area (GLA) of 50,766 m2, representing 31% of the market value of the Group's real estate portfolio, are registered as residential buildings. The Group companies have not reported the changes in the purpose for which such buildings are used and have not obtained all the administrative decisions required in this respect. Moreover, the fire safety, work safety and sanitary conditions and other conditions of using such buildings may not meet all the requirements applicable to office space.

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

The Group can be affected by increased competition from other entities investing in real estate, real estate managers and developers

The Group has competed and still competes in particular with other entities investing in real estate, both local and international, real estate managers and developers, as well as other entities leasing real estate. Competition on the market can lead to unavailability of tenants, pressure from tenants on reducing rents (which happened in 2009), as well as increases in the costs of marketing activities and the costs of execution of the planned projects. Development of the Group's operations and its profitability depend on the level of rental vacancy rate and the level of rents. Moreover, the Group's development to a large extent depends on proper execution of the repairs in the Group's buildings. If the attractiveness of a specific location is adversely affected by the presence of a competitor's building in the same area, the construction may be delayed or discontinued and the real estate may not generate the expected revenues.

The Group is exposed to adverse changes affecting the regions in which its real estate is located and trends in commercial space rental

The Group's real estate is affected by macroeconomic factors and specific local conditions prevailing in the region in which it is located. A significant proportion of the Group's real estate is located in and around Warsaw or in certain other major Polish cities. Consequently, the Group can be exposed in particular to adverse changes on the real estate market in Warsaw and in other regions in which it operates, which can be more intensive or broader than in other regions of Poland.

The Group's real estate portfolio is mainly composed of commercial space, in particular office space. As a result, the Group is exposed to adverse changes in these segments of the Polish real estate market, including increased competition or market saturation.

Valuation of the Group's real estate is uncertain and exposed to fluctuations

The Group values most of its assets at the fair value determined by third party real estate experts. Real estate valuation is based on a number of assumptions and forecasts which may differ from the actual data and parameters or actual events that will take place in the future, and therefore it is characterized by uncertainty.

Such assumptions relate mainly to the right to use real estate, analyses of the condition of the environment and soil, third party claims, rental agreements, usable space, fixtures and fittings and planning issues. Valuation can also be based on specific assumptions relating to specific properties, which: (i) require the valuation to be based on the facts that differ significantly from the facts existing as at the valuation date; or (ii) involve conditions that a potential buyer cannot be reasonably expected to meet as at the valuation date due to the existing market conditions. It is not certain whether the current valuation of the Group's real estate reflects the prices that can be obtained in the event of their sale or that the assumptions adopted for the purposes of valuation, concerning the capitalization rate and obtaining the assumed annual rental income, will be achieved. Forecasts may prove inaccurate due to a limited amount and quality of publicly available data and studies concerning Poland. Other factors affecting the valuation include the costs of construction or modernization of buildings, which are estimated by the Group on the basis of the present and budgeted prices of materials and services, which can differ from the actual prices at the time the costs are incurred. If the forecasts, estimates and

assumptions on which the valuation of the Group's real estate portfolio is based prove inaccurate, the actual values of the real estate portfolio components can differ significantly from the amounts presented in the Valuation Report or from future valuations of the Group's portfolio. Furthermore, real estate valuations can be based on various methods, and even if the same method is applied, the principles applied can be interpreted in different ways. Therefore, it cannot be guaranteed that experts performing the valuation of the Group's real estate will apply the same methods or obtain the same results.

In consequence, the valuations of the Group's assets are exposed to fluctuations and the Group may recognize significant gains or losses in the respective periods depending on the changes in the fair value or other parameters of the real estate. In the event of unstable market conditions or prices of comparable commercial real estate, the Group may recognize significant gains or losses on revaluation of present real estate. A decrease in the value of the Group's real estate can have an adverse effect on the Group's ability to obtain and service external financing, as well as on its operations, financial position and results of operations.

The costs of maintaining real estate may increase, while at the same time the Group may be unable to increase rents or charge such costs to tenants

Many rental agreements concluded by the Group do not provide for a possibility of charging the costs of maintenance, utilities or property management directly to the tenants. Consequently, such costs are borne by the Group and they can be transferred to the tenants on a lump-sum basis in an adequate proportion in the form of rent increases. The market conditions and the requirements applicable to rent rates can limit the possibility of transferring such costs or a part thereof to the Group's tenants. In particular, most rental agreements concluded by the Group contain a clause concerning partial or full indexation of rent, which is usually performed once a year. However, the reference index used for the purposes of the indexation (mainly the consumer price index published by the Central Statistical Office (GUS)) may not reflect the increases in the specific costs of property maintenance in full or at an appropriate time. Moreover, if a rental agreement does not contain the rent indexation clause, the rent may remain fixed for a relatively long period (in particular in the case of agreements concluded for a specified period) even though the costs of property maintenance incurred by the Group grow. The costs of property maintenance may grow due to a number of factors, including inflation. A significant increase in the costs of property maintenance, which cannot be offset by increasing the rent, may have a material adverse effect on the Group's business, financial position and results of operations.

In order to minimize such risk, the Group takes actions resulting from its strategy, which are aimed at a gradual transfer of a major part of the costs associated with the real estate to tenants.

The Group may be unable to obtain financing for its investment programme on the expected terms and conditions, within the expected time or at all

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

The availability of external financing depends on a number of factors, including the market situation, availability of loans in the whole sector, possibility of placement of debt securities issued by the Group, the Group's reputation in the eyes of specific creditors and the value of collateral that the Group can provide to secure its liabilities. Most of these factors are beyond the Group's control. The Group may find it difficult to obtain financing on the expected terms and conditions. Without the possibility of obtaining financing on satisfactory terms, the funds available to the Group at present may prove insufficient for the execution of its strategy, the level of the Group's development may be lower than expected, and the time needed to achieve the specific strategic goals may be longer than it was initially assumed.

If the Group's capital requirements differ significantly from the present assumptions, the proceeds from disposal of the Group's non-core properties earmarked for disposal as part of the disinvestment programme are lower than expected, or if the Group is unable to find a joint venture partner that would provide financing for a given development project, the Group may need to obtain additional external financing in the amount higher than initially anticipated.

Moreover, the additional costs of servicing such financial liabilities (if incurred in the future), including the costs resulting from changes in interest rates and foreign exchange rates, can lead to the terms of financing available to the Group being less favourable than initially expected, which can have a significant adverse effect on the Group's business, its financial position and results of operations.

The Group may be unable to sell the real estate earmarked for disposal as part of the disinvestment programme in the planned period

The Group's strategy assumes generating revenues also from the sale of some of the Group's properties unrelated to the target profile of the Group's activity, which are held for sale within the disinvestment programme. Real estate is characterized by relatively low liquidity as compared to other assets and its sale is usually a complex and long-term process. A long time may pass between making a decision to start the real estate disposal

process and the date on which the disposal is actually made. Such time may be longer than assumed by the Group due to factors independent of the Group. In this period, in particular, market conditions may deteriorate or an entity interested in purchasing a specific property may change its plans. As a result, the Company may not guarantee that it will achieve revenues from sold real estate in the amount specified in the valuations of the individual properties. The sale process may also be delayed or discontinued due to reprivatization claims brought against Group Companies. Such limitations or other actions of third parties may adversely affect the Group's ability to make sales at expected prices or in the planned period, or to sell at all.

If the Group is unable to sell the properties on good terms or within a reasonable deadline, it may adversely affect its cash flows and financing capacity, which in turn may have a significant adverse effect on the Group's business, financial standing and operating result.

The Group incurs a risk resulting from executing some projects as part of joint ventures

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

In particular, disputes between the Group and its partners may result from different objectives of the partners, their actions violating the agreement concluding with the Group, a partner's financial problems, delays in project execution for reasons on the part of the partner, insufficient experience and knowledge of the partner.

Such factors may lead to delays in project completion or increase in the costs incurred by the Group in connection with a project executed as part of a joint venture.

The Group is exposed to risks concerning general contractors

In the overwhelming majority of cases, the Group orders performance of its projects or important repairs to general contractors or other external entities. Successful performance of construction projects or important repairs depends on the Group's ability to employ general contractors who execute projects in compliance with accepted standards of quality and safety, on commercially justified terms, within the agreed deadlines and within the approved budget. If it is impossible to employ general contractors on commercially justified terms and if general contractors fail to comply with the accepted standards of quality and safety or to complete construction or repair within the agreed deadlines and the approved budget, the costs of project performance may increase, its completion may be delayed and claims may be brought against the Group. In addition, such events may adversely affect the Group's image and the potential for selling completed projects.

Strong financial position and liquidity of the Group's general contractors may prove to be insufficient in the event of considerable deterioration of the economic situation on the real estate market, which in turn may lead to their bankruptcy, adversely affecting the performance of the Group's investment programme. Security (if any), which is usually established by general contractors to secure performance of their obligations following from the contracts concluded with the Group, may not cover all the costs and damages incurred by the Group in such circumstances.

The Group's reliance on general contractors also exposes the Group to all risks associated with low quality of work of such general contractors, their subcontractors and employees, as well as with structural defects. In particular, the Group may suffer losses due to the need to employ other contractors to correct defective work or due to the necessity to pay damages to persons who suffered losses in connection with defective work. Furthermore, there is a risk that such losses or costs may not be compensated by the Group's insurance, by the contractor or the relevant subcontractor.

The Group incurs costs associated with modernization and repairs of real estate which may exceed the amount of costs assumed by the Group

Demand for lease of real estate depends also on the terms and the physical condition of such real estate. For real estate to be attractive for tenants and to generate specific revenues in the long-term perspective, the terms and the technical condition of a given property should be maintained by the Group at a level that satisfies the changing needs of tenants and the legal and regulatory requirements.

Maintaining the general and technical condition of leased real estate at an appropriate level may entail considerable costs, which are normally borne by the lessor. The Group may not be able to transfer such costs of repairs and modernization to third parties, especially tenants.

The Group's real estate portfolio includes also properties developed several dozen years ago, which have not been thoroughly modernized in recent years. Some of the Group's properties will require considerable expenditure in the immediate

future to adjust them to the market standards. In addition, certain properties included in the Group's portfolio require incurring considerable expenses to adjust their standard to that specified in relevant lease agreements or to change their actual use from residential to office or retail space. Furthermore, the need to modernize or repair certain real estate earlier than it was assumed previously may result from increased competition on the real estate lease market. Otherwise, the Group could lose some tenants or be forced to reduce the rent. In addition, the need for modernization or repair of some properties of the Group may follow from external causes independent of the Group, including force majeure events, which, at a given moment, may force the Group to incur costs that were not planned for a given year or that considerably exceed the planned costs. The Group's real estate may also suffer damages because of hidden defects (which are not covered by insurance policies or statutory warranties or building guarantees) or due to external factors (e.g. floods, high groundwater level, landslides). Additionally, the Group may be obliged to remove the consequences of external factors or repair identified defects e.g. without the possibility of transferring such costs to third parties, especially tenants.

Effectiveness or validity of some legal acts performed by Group companies may be questioned

Legal regulations applicable to the Company or other Group companies include the Commercial Companies Code (KSH), the Act on the principles for exercising the rights vested in the State Treasury and the Act on commercialization and privatization, pursuant to which certain legal acts require a specific form or approval of a specific authority of the company or the public administration to be valid. In particular, Group companies, being state legal persons, are required to obtain consent of the Minister of the State Treasury for concluding certain property lease agreements, pursuant to the Act on the principles for exercising the rights vested in the State Treasury; without such consent, such lease agreements are null and void. In the past and as at the date of this report – in the case of Wrocławskie Centrum Prasowe, which continues to be a state legal person – the Group companies have not applied for such consent, as a result of which the lease agreements concluded are invalid. This was mainly a result of doubts as to whether such consents were required, as well as the adverse effect of the deadlines and procedures connected with obtaining such consents on ongoing operating activity of Group Companies and their legal predecessors, which could disturb the regular course of their operating activity. The Group estimates that a considerable number of lease agreements binding as at the date of this report (the lease agreements concluded by Warszawski Holding Nieruchomości and its legal predecessors, Budexpo, Intraco and Dalmor before they lost the status of state legal persons and all agreements concluded by Wrocławskie Centrum Prasowe) may be rendered invalid for the above reason. According to the Management Board's knowledge, up to the date of this report, the validity or effectiveness of the lease agreements concluded by Group companies without obtaining the above-mentioned consent was not questioned. Furthermore, in the past Group companies may not have fully satisfied other legal requirements with respect to their legal acts (such as e.g. the requirement to perform legal acts between Group companies (or their legal predecessors) and the State Treasury acting as the sole shareholder of such companies in the form of a notarial deed, the obligation to apply to the competent public administration authorities for confirming the right to perpetual usufruct of real estate on the terms and conditions and within the deadline specified in the Real Estate Management Act and other regulations, the obligation to obtain permits and other administrative decisions for specific actions, the obligation to obtain consents of authorities for performing legal acts) and, consequently, the effectiveness or validity of such acts may be questioned. Due to the above, there is a risk of the effectiveness or validity of some corporate actions of the Group being questioned.

Perpetual usufruct agreements concluded by Group Companies may be terminated or may not be extended for future periods

As at 31 December 2014, the Group is a perpetual usufructuary of 87 properties based on perpetual usufruct agreements concluded with the State Treasury or local government units or their associations. A perpetual usufruct agreement is concluded for a specified period, generally for 99 years, and most of the Group's agreements were concluded for such a period. A perpetual usufruct agreement may be extended for another period at the perpetual usufructuary's request, which can be refused only due to important public interest.

An agreement to let land for perpetual usufruct concluded by a Group Company may be terminated before the end of the period defined in the agreement if the Group uses the land in a manner clearly inconsistent with its purpose defined in the agreement. In view of a large number of properties used by the Group on the basis of perpetual usufruct agreements, the Group is unable to ensure that it has fulfilled all the obligations defined in these agreements. Consequently, the Group cannot exclude the risk that such agreements may be terminated by the State Treasury, local government units or their associations being parties to the agreements before the end of the period for which they were concluded. In addition, the Group cannot guarantee that all the perpetual usufruct agreements are extended for further periods or that they are not terminated because of reprivatization claims or other claims for restitution of real estate. Termination of an agreement concerning one plot of land which is a part of a larger property of the Group covered by the Group's investment

programme can lead to problems with or delay in the execution of such a programme.

Administrative decisions may not be obtained by the Group in time, the terms and conditions of such decisions may differ from the assumed terms and conditions, or they may not be obtained at all

As part of its activity and the asset management function, the Group is obliged to obtain a large number of permits, consents or other types of decisions from public administration authorities, in particular development, building and use permits for its real estate. The Group is unable to guarantee that any such permits, consents or other decisions relating to existing properties or new projects are obtained in time or that they are obtained at all. The Group is also unable to guarantee that any permits, consents or other decisions held now or obtained in the future will not be revoked or that they will be extended.

In addition, the Group may plan to introduce changes to some of the Group's projects or facilities or to change the purpose of real estate so as to use it more effectively or in conformity with trends currently prevailing on the real estate market. However, such changes may be impossible to implement due to problems with obtaining or modifying the required permits, consents and decisions, particularly in the case of buildings entered in the register of historic monuments.

The Group may become party to legal disputes

The Group's activity is mainly connected with real estate lease, sales and management, which involve a number of court cases and other legal proceedings which are a part of the Group's regular business activities. Legal disputes, which individually are of relatively little importance, may relate to the same or similar factual states, as a result of which the total value of the subject matter of the dispute may become material for the Group's business. There might be claims relating to the Group's properties, and the Group may be held liable for events occurring at building sites, such as accidents, injuries or deaths of the Group's employees, employees of subcontractors or other persons visiting such building sites. Other disputes which may involve the Group include in particular disputes with individual residents concerning replacement or maintenance of equipment or finishing of residential premises, disputes relating to lease and settlement of fees for utilities. Due to the recurring nature of disputes to which the Group is a party, certain situations/events may occur repeatedly.

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

Also, if the Group's assets are subject to legal claims brought by third parties and the parties to the dispute do not reach an agreement or a settlement, such claims may, among others, significantly delay the activities planned by the Group.

The Group's right to possess or use real estate may be challenged by reprivatization claims

The Group is exposed to inherent risk associated with investing in Poland, resulting from unclear legal status of some real estate located in Poland. After the nationalization laws were implemented in Poland in the post-war period (mainly in the late 1940s and early 1950s), many private properties and companies were taken over by the state. In many cases, property was expropriated in breach of the law. In particular, real estate in Warsaw was covered by a special decree issued in 1945, on the basis of which many Warsaw properties were nationalized (the "Warsaw Decree"). In the years 1989-1990, after Poland's transition to market economy, many former real estate owners or their legal successors began efforts to recover their real estate or companies lost after World War II or to obtain compensation. For many years, attempts have been made to regulate the issue of reprivatization claims. Nevertheless, to date no law has been passed in Poland to regulate reprivatization procedures in a comprehensive manner. Under the current regulations, former real estate owners or their legal successors may apply to public authorities for revoking the administrative decisions on the basis of which their real estate was expropriated, provided that such administrative decisions were issued in breach of the law binding at the time.

In accordance with the Management Board's knowledge, the Group's portfolio of real estate with legal defects (with little potential for positive resolution) includes 22 properties. The Group classified 11 more properties (and land plots forming part of the properties at Świętokrzyska 36 and Bartycka 26) to its portfolio of real estate with legal defects (with potential for positive resolution). Classifying real estate as having legal defects means that: (i) the Group may have no right to possess such real estate, (ii) the ownership title held by the Group or the State Treasury has been challenged by third parties, or (iii) the Group may have problems with determining beyond any doubt that it holds the ownership title, the perpetual usufruct right or another property right to the real estate or that it uses the real estate on the basis of a contract or on another legal basis. Consequently, the Group may lose the right to possess some of its properties to former owners, their heirs, purchasers of claims or other entitled persons. There is also a risk that in some cases the Group will be obliged to return some benefits obtained in

connection with using the real estate or to pay compensation for using the real estate without a legal title. The Group recognized a provision for satisfying claims concerning the portfolio of real estate with legal defects (with little potential for positive resolution) and the real estate lost as at 31 December 2013. A provision was not created for the portfolio of real estate with legal defects with potential for positive resolution. Classification of real estate from the legal perspective was based on the best knowledge of the Management Board, however, it is impossible to guarantee that this classification will not change due to various circumstances, the majority of which remain outside the Group's control, such as: court decisions issued in similar cases in the future or new reprivatization claims brought with respect to the Group's real estate classified as free of legal defects or having legal defects with potential for positive resolution. It cannot be guaranteed, either, that the Group's classification will not be questioned in the future.

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

The Group may have certain obligations with regard to environment protection and health and safety standards, which may entail incurring some expenses

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

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

The Group is exposed to distribution of negative or slanderous information about the Group

The opinion of the market about the Group is an important factor affecting its business activities. The Group's business activity is exposed to risks caused by spreading negative or slanderous information about the Group, especially questioning the condition or safety of its properties, whether or not such opinions are justified. This may have a significant adverse effect on the Group's competitive position and its ability to lease space and sell real estate effectively. In consequence, the number of vacancies in the Group's properties or the amounts spent on promotional activities may increase. At the same time, negative information itself and the resulting decrease in the level of trust in the Group's ability to lease or sell real estate may have a significant adverse effect on the Group's business activity, its financial position and operating result.

Employment restructuring in the Group, strikes or other industrial actions or protests may disturb the Group's activity or increase its operating expenses

By continuing the employment restructuring process commenced in 2011, the Group intends to take further actions aimed at optimizing the employment structure in the Group, including a further reduction in the number of employees to achieve cost savings. The Group, however, cannot guarantee that any actions in this respect will be taken or, if such actions are taken, that they will bring the expected results or that the Group will be able to negotiate and agree with employees or their representatives the benefit packages connected with employment restructuring that are acceptable for both parties. Some employees of the Group are subject to legal protection due to such factors as age, maternity and performing functions in trade unions, which has restricted and may still restrict the Group's ability to perform employment restructuring. In addition, it is impossible to rule out the possibility that such employment restructuring in the Group will involve incurring considerable costs in excess of the assumed amounts.

Furthermore, the Group is exposed to the risk of strikes or other industrial actions or protests (work-to-rule, work stoppages, etc.). The interests of the Group's employees are represented by nine trade unions. Due to the membership of the Group's employees in trade unions and the number of trade unions representing the employees' interests, the Group may have to negotiate with trade unions in the future, which may have a significant adverse effect on the Group's activity, its financial position and operating result.

The Group's inability to retain or employ Management Board members and qualified senior managerial staff may delay or prevent the execution of the Group's strategy

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

Losing any Management Board member may significantly delay or prevent the performance of the Group's strategy or achievement of its business objectives and adversely affect its restructuring and integration. Due to a limited number of suitably qualified staff and statutory limitations concerning remuneration of Management Board members, which will remain in force as long as the State Treasury's interest in the Company exceeds 50% of the Shares, the Group may have problems with employing or retaining qualified Management Board members.

Furthermore, the Group's future success depends partly on its ability to retain or employ senior managerial staff such as managers with many years of experience in real estate management, execution of investment programs, financing and internal audit. If the Group loses qualified specialists or is unable to employ them, the shortage of employees may have an adverse effect on the Group's ability to manage its assets effectively or to manage the execution of its investment program and its business activities properly. The Group may also be forced to offer higher remuneration and additional benefits in order to find or attract such senior managerial staff.

The costs of servicing the Group's liabilities may increase significantly

The balance of the Group's liabilities in respect of bank loans amounts to PLN 14.3 million. The Group expects that the level of external financing will increase in the future in connection with the execution of the planned commercial development projects. Growing importance of external debt has the following implications:

- increased exposure to adverse economic conditions in the Group's business environment;

- limited flexibility of the Group when facing changes in the competitive and macroeconomic environment;

- the need to use a part of cash from operating activities for servicing liabilities;

- limited ability to obtain further external financing for development projects or the need to obtain financing on less favourable terms.

Additionally, the Group is exposed to a risk of fluctuations in interest rates which affect the amount of interest on bank loans. The interest rates depend on a number of factors, including the monetary policy and the domestic and international economic and political situation, as well as other factors that are beyond the Group's control. A significant increase in interest rates may increase the costs of financing and, therefore, have an adverse effect on the Group's business activities, profitability and financial results.

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

The Group incurs foreign exchange risk

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

The Group monitors foreign exchange rates on an ongoing basis and takes actions to mitigate the adverse effect of their changes. As at the balance sheet date, the Group did not use derivative transactions for hedging purposes.

Risk factors concerning Poland

The real estate market in Poland and the Group's business activity may be affected by the financial, economic and political situation in Poland and in the world

The Group to a large extent relies on revenues from lease of real estate and residential development activity and on the value of its real estate, which depends on the economic situation in the world and in Poland, where the Group conducts business and where all its assets are located. The Group's business activity is particularly affected by: the level of Polish GDP, inflation rate, foreign exchange rates, interest rates, unemployment rate, the amount of average salary, the state's fiscal and monetary policies.

The economic situation in Poland and, consequently, the Group's business, may also be affected by adverse economic or

political events in the neighbouring countries that experience political instability, tension and social or ethnic unrest and conflicts.

Group companies are exposed to risks associated with the cyclical nature of the real estate market

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

Furthermore, demand for residential real estate may depend on the government policy in the area of co-financing or easier access to mortgage loans for certain buyers of certain types of apartments. Any changes in the government policy that are associated with difficulties in obtaining mortgage loans may decrease demand for residential real estate. An increase in interest rates, deterioration in the economic situation of households and regulatory limitations imposed on banks in the area of granting loans and borrowings may cause a further decrease in demand for apartments and houses, which may persist. In addition, banks may further limit or restrict the terms and conditions for granting new mortgage loans or increase interest rates. These factors may additionally decrease demand for new apartments.

Amendments to legal regulations may have an adverse impact on the Group

The Group's activity in Poland is subject to various regulations, such as requirements regarding the investment process, fire protection and safety regulations, environmental regulations, labour laws and laws restricting the use of land. If the Group's projects and real estate do not comply with these regulations, the Group may be obliged to pay penalties or damages provided for by law.

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

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

Amendments to tax laws and their interpretation may have an adverse impact on the Group

Tax laws are complicated and unclear and they are subject to frequent and unpredictable changes. The application of tax laws is, therefore, often associated with controversy and disputes, which are usually resolved by administrative courts. In addition, there is no uniform practice of applying tax laws and there are important discrepancies in the judicial decisions in this respect. Furthermore, tax laws do not directly regulate the rules defining the possibility, manner and moment of recognizing revenues and costs associated with a number of events and legal and factual acts, concerning e.g. restructuring activities. Similarly, they do not clearly define the rules for taxation with other taxes, including VAT and real estate tax.

Due to the above, one cannot rule out potential disputes with tax authorities, as a result of which the tax authorities may question tax settlements of Group entities with respect to unexpired tax liabilities and determine tax arrears for such entities.

In addition, Group companies concluded and continue to conclude transactions with related entities. Even though Group companies make every effort to conclude transactions with related entities on an arm's length basis, one cannot guarantee that there will be no disputes with tax authorities in this area, as a result of which the tax authorities may evaluate the terms and legal effects of such transactions with related entities differently and, as a result, attempt to impose additional tax liabilities.

The Group may violate consumer protection regulations

The Group's activity, in particular in the area of sales of residential real estate, must be conducted in compliance with the relevant consumer protection laws. The Group's activities in this respect are subject to supervision by the President of UOKiK with regard to, among others, compliance with regulations prohibiting specific practices which violate common interests of

consumers (such as providing inaccurate information to customers, unfair market practices and including forbidden clauses in templates of agreements). Pursuant to the Competition and Consumer Protection Act, the President of UOKiK is entitled to issue decisions stating that a given agreement violates collective interests of consumers and, consequently, prohibit certain practices and impose fines (up to 10% of revenues obtained in the year preceding the year in which the fine was imposed) or take other measures.

Competition protection authorities (or other legal authorities) and individuals may initiate court proceedings to declare a given provision of an agreement template illegal. If a provision of an agreement or an agreement template has been declared illegal on the basis of a legally valid verdict of the Court of Competition and Consumer Protection, such a provision or template shall be entered in the register of abusive contract terms maintained by the President of UOKiK. As soon as a provision of an agreement or agreement template is entered in the register, it cannot be applied by any entity conducting activity in Poland.

In addition, clients may bring claims against Group companies, individually or as part of a class action, for using such clauses in agreements. One cannot guarantee that such claims will not be brought by the Group's clients and, even if their value per agreement is low, they may have an adverse effect on the Group's activity due to the total number and value of such potential claims. Due to provisions regulating class actions, clients may decide to bring class actions instead of individual claims, which may cause a significant increase in the number of claims brought by individuals against the Group.

Arbitrary actions of public administration authorities may affect the Group's activities

The Group's activity requires ongoing participation in a number of administrative proceedings conducted by various public administration authorities. Such proceedings are usually formalized and prolonged. If, during such proceedings, the Group does not comply with all formal requirements, its requests, demands or notifications will be rejected or dismissed. Furthermore, public administration authorities in Poland are to a large extent entitled to make arbitrary decisions and may not be controlled by other authorities or bound by requirements with respect to hearing the parties, prior notification or public control. Public administration authorities may exercise their right to make decisions in an arbitrary or selective manner or contrary to the law and under the influence of political or economic circumstances. Such a high level of arbitrariness and unpredictability of decisions of the Polish public administration authorities compared with decisions made by such authorities in more developed legal systems may have a significant adverse effect on the Group's activity, its financial position and operating result.

9. Proceedings pending in court, court of arbitration or a public administration authority

As at 31 December 2014 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 would be equal to or higher than 10% of the parent company's equity.

10. Events significantly affecting the Group's business and financing in the financial year and after its end up to the date of approval of the financial statements

10.1. Significant agreements concluded, including agreements between shareholders

On 1 September 2014, a Group company PHN SPV 2 Sp. z o.o., Bank Polska Kasa Opieki S.A. and Pekao Bank Hipoteczny S.A. signed a loan agreement (details are presented in Note 32 to the consolidated financial statements).

10.2. Significant transactions executed by the parent company or its subsidiary with related entities on a non-arm's length basis

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

10.3. Significant transactions with the members of the Management Board and the Supervisory Board and their relatives

In the year ended 31 December 2014 and 31 December 2013, no advances, loans, guarantees or warranties were granted to members of the Management Boards and Supervisory Boards of Group companies and their relatives and no other agreements were concluded with such persons on the basis of which they would be obliged to render services to Polski Holding Nieruchomości S.A. and its related entities.

As at 31 December 2014 and 31 December 2013 no loans were granted by Group companies to the Management Board and Supervisory Board members and their relatives.

In the year ended 31 December 2014, the Group did not enter into any significant transactions with the Management Board and Supervisory Board members or their relatives

10.4. Agreements in respect of loans and advances concluded and terminated in the financial year

On 22 April 2014, the Company concluded a loan agreement with Warszawski Holding Nieruchomości S.A. for the amount of PLN 300 thousand. Interest on the loan: WIBOR 1M + 1.5 p.p. Repayment date: 31 July 2015. The loan was repaid on 26 January 2015.

On 19 May 2014, the Company concluded a loan agreement with Warszawski Holding Nieruchomości S.A. for the amount of PLN 500 thousand. Interest on the loan: WIBOR 1M + 1.5 p.p. Repayment date: 31 July 2015.

On 21 May 2014, the Company concluded a loan agreement with Intraco S.A. for the amount of PLN 45m. Interest on the loan: WIBOR 1M + 1.5 p.p. Final repayment deadline in accordance with the agreement: 31 December 2016. The amount of PLN 2m was repaid on 16 July 2014. The balance of the loan was repaid on 26 January 2015.

On 21 May 2014, the Company concluded a loan agreement with PHN 3 Sp. z o.o. for the amount of PLN 54.85m. Interest on the loan: WIBOR 1M + 1.5 p.p. Final repayment deadline in accordance with the agreement: 31 December 2016. Subsequently, on 16 July 2014, an annex to the loan agreement increasing the loan amount to PLN 56.85m was signed. The loan was repaid in the total amount on 26 January 2015.

10.5. Loans granted in the financial year

In 2014 and up to the date of this report, the Group companies did not grant any loans to unrelated companies.

10.6. Guarantees and sureties granted and received in the financial year

In order to secure repayment of liabilities resulting from a loan agreement concluded for the execution of the DOMANIEWSKA OFFICE HUB project and in order to execute the said agreement properly, the subsidiaries of PHN S.A. established in particular the following security for Polska Kasa Opieki S.A. or Pekao Bank Hipoteczny S.A.:

(i) financial and registered pledges on the shares in PHN SPV 2 Sp. z o.o. (hereinafter: "the Borrower") held by by PHN 3 Sp. z o.o., along with the powers of attorney to exercise the voting rights resulting from the shares and rights granted personally to the above-mentioned company and statements made by PHN 3 Sp. z o.o. on voluntary submission to enforcement based on Art. 97 of the Banking Law,

(ii) financial and registered pledges on the receivables in respect of the Borrower's bank account agreements,

(iii) powers of attorney to use the Borrower's bank accounts and issue blocking orders,

(iv) four contractual mortgages with equal priority right on the properties on which the Borrower executes the project,

(v) the Borrower's statements on voluntary submission to enforcement based on Art. 97 of the Banking Law,

(vi) agreement for transfer of the Borrower's rights resulting, among others, from contracts with general contractors of projects and lease agreements,

(vii) agreement for transfer of the Borrower's rights under the security (insurance) agreements for all construction risks,

(viii) agreement subordinating the Borrower's liabilities to creditors other than banks, in particular bonds issued.

Moreover, the Company:

(i) granted a warranty up to the total amount of EUR 3m to Polska Kasa Opieki S.A. and Pekao Bank Hipoteczny S.A. with statements of voluntary submission to enforcement based on Art. 97 of the Banking Law. This warranty has been granted for a period until the conversion of the construction loan to investment loan or until repayment of the Borrower's liabilities under the loan agreement,

(ii) concluded with Polska Kasa Opieki S.A. an agreement to guarantee covering the project costs, containing an obligation to cover the costs incurred in excess of the project's budget by more than 5%, not less, however, than PLN 4.9m and EUR 1.1m..

10.7. Issue of securities

In 2014 the Group companies did not issue securities to be subscribed for by unrelated entities.

10.8. Organizational or capital links of the Group with other entities and major investments in Poland and abroad

Polski Holding Nieruchomości S.A. is a holding company, which is a direct or indirect parent of 55 entities which are consolidated using the acquisition method, while shares in the jointly-controlled entity are recognized using the equity method.

The list of subsidiaries and the share in their capital is presented in the second point of this report.

10.9. Acquisition of treasury shares

Warszawski Holding Nieruchomości S.A. purchased 117,614 shares of Polski Holding Nieruchomości S.A., which were transferred to the State Treasury to satisfy the claim of the State Treasury against Warszawski Holding Nieruchomości S.A. for damages.

10.10. Dividends paid and proposed

In 2014, the Company paid dividend to the shareholders in the amount of PLN 99.8m, i.e. PLN 2.16 per one share. 46,226,614 shares of the Company participated in the dividend.

The Company's Management Board has not made a decision yet as to the recommendation concerning the net profit distribution for the year ended 31 December 2014.

11. Expected development of the Group

Description of opportunities for development

The Group focuses its asset management activity on actions aimed at achieving the strategic objective of earning a higher recurring net operating profit. This objective will be achieved by proper management of the basic real estate portfolio generating revenues from lease and a further growth in the value of the real estate portfolio resulting from the investment programme execution.

The Group's strategic objective in the medium and long term is to increase net operating profit generated by the Group's target investment portfolio to the market levels. The operating profit can be increased through:

- ✓ improvement of the operating profit from properties held in the portfolio,
- ✓ execution of the Group's own new investment projects,
- ✓ purchase of new commercialized properties,
- ✓ disposal of properties inconsistent with the target business model.

The operating performance of the strategy with respect to the properties remaining in the portfolio will be effected by extending lease agreements concluded on favourable terms and conditions. The Group attempts to conclude lease agreements for at least 5 years with respect to selected properties to increase the base of tenants and support uninterrupted lease term. Real estate maintenance expenses are gradually transferred in part to tenants. The Group encourages the existing tenants to lease more space. Repairs and modernizations are performed to improve the standard of leased space, retain the existing tenants and attract new ones. The Group aims at acquiring new stable tenants, especially corporate ones. As part of the restructuring, all auxiliary services in the area of ongoing management and maintenance of real estate and facilities have been outsourced to specialized third party service providers.

The Group aims to further improve its operating effectiveness by continuing restructuring initiatives to optimize its corporate structure and cost basis.

The Group executes a programme of reorganization of its corporate structure, involving a partial decrease of the deferred tax provision which is recognized in the Group's financial statements on the basis of the difference between the depreciated purchase cost and the carrying value of real estate value as at the reporting date. The Group intends to continue the reorganization process and the deferred tax provision may be decreased further. At the same time, the Group will adjust its present organizational structure to the market standards (consolidation of selected entities, allocation of assets to SPVs, provision of services by employees of service companies).

The Group will aim at increasing the proportion of external funds used to finance its assets in order to increase return on equity. This strategy will be implemented primarily with regard to newly purchased properties and execution of new investment projects. At the same time, the Group will continue the model of finding business partners to perform joint ventures and protect the Group against the risk connected with fluctuations of foreign exchange rates.

Current and planned investment projects

In accordance with the adopted strategy, the core business operations of the PHN S.A. Group involve optimization of the real estate portfolio structure. As a result of such actions, the effectiveness of the Group's real estate portfolio will increase and the asset management will improve. At the same time, the conservative financing strategy will be maintained. 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 executes development projects for sale in the residential sector.

The main commercial and residential projects carried out by the Group in 2014 are described below:

Completed projects:

Rakowiecka project in Warsaw - conversion and modernization of a residential building used for office purposes at Rakowiecka 19 - RAKOWIECKA CITY - has been completed. The result is a modern A class office building with the gross leasable area (GLA) of ca. 1,697 m². After the conversion, the building has four overground levels and one underground level. In January 2014, the permit for using the building became legally valid. In September 2014, the Group signed an agreement for the sale of the property with the Embassy of the Republic of Turkey.

Foksal 10A project in Warsaw - in March 2014, a permit was obtained for using the building at Foksal/Krywulta 2 - FOKSAL CITY, where a modern A class office building with gross leasable area (GLA) of 3,342 m^2 was built on a plot with an area of ca. 1,290 m2. The building has 7 overground levels and one underground level with 17 parking places. Talks with potential tenants were conducted in 2014. Signing of an agreement with the tenant of the building is planned for the second quarter of 2015. Consequently, the BREEAM certification procedure for the building will be completed at a "very good" level.

Projects under way:

Domaniewska project in Warsaw - on a plot with an area of ca. 1.3 ha at Domaniewska 37C, the Group continues the construction of an A class office building consisting of two segments and 7 levels - DOMANIEWSKA OFFICE HUB, with the estimated GLA of 27,100 m². The project is carried out in accordance with the schedule (the construction of buildings A and B has been completed, work on the facades, installations and finishing is under way; utilities are being connected; space arrangement for the key tenant, Poczta Polska, has been commenced). In the third quarter of 2014, the Group obtained financing in the form of a bank loan. The project is planned to be completed in the third quarter of 2015. Commercialization of the facility is at its final stages.

Bierutowska project in Wrocław - as part of the Wrocław Industrial Park project (JV with SEGRO), a modern warehouse and logistic facility called SEGRO Industrial Park Wrocław is being built on a part of investment land located at Bierutowska street in the north-eastern region of Wrocław. Facilities with a planned usable area of ca. 40,000 m² are being built on a plot of 10.6 ha. To date, the first stage of ca. 19,500 m² was completed. For this stage, lease agreements for ca. 16,100 m² have been signed. The second stage is in progress. Its area will be ca. 19,000 m². Infrastructure is being prepared for the subsequent stages of the investment project.

Retkinia project in Łódź - in September 2014, the company PHN Nieruchomości 3 Sp. z o.o. signed an agreement for the construction and lease of a retail facility in the BTS (built-to-suit) system, located on a plot at Retkinia in Łódź. As part of the first stage of the project, a building with a usable area of ca. 1,181 m² will be built on the property with the total area of 56.6 ha. The building will be located on a plot with an area of ca. 8,742 m². The agreement was signed for 10 years from the date of commissioning of the facility with an option to extend the lease for the subsequent 10-year periods. Construction work was commenced in late November - early December 2014 and its completion is expected in 2Q 2015.

Parzniew near Pruszków project - in February 2014, the Group companies signed a letter of intent for the construction of a warehouse facility Parzniew Logistic Hub on a plot with an area of 22 ha. In December 2014, the Group finalized negotiations concerning the execution of this project with a development company Parzniew Partners B.V., which belongs to the leaders of the international logistic market: Menard Doswell & Co. and Hillwood Europe. In January 2015, an SPV of PHN S.A., PHN SPV 4 Sp. z o.o., signed a joint venture (JV) agreement for the stage by stage construction of a warehouse complex. In the past year, preparations for the execution of this project was conducted. Among others, drainage installations were modified and infrastructure works were carried out.

The Molo Rybackie in Gdynia project - as part of the project execution, the company Dalmor S.A. finished negotiations with one of the leading developers in Poland operating on the local markets, i.e. mLocum S.A. (formerly BRE.locum S.A.). On 30 October 2014, an agreement for the execution of the first stage of the Molo Rybackie in Gdynia project was signed. The project involves the construction of 6 residential buildings on a property owned by Dalmor S.A. The agreement was signed after both parties have obtained the required corporate approvals.

Demolition works, infrastructure extension and connection were completed. Design work is under way.

Stawki 2 - INTRACO CITY project - a two-stage project is planned to be executed on a developed plot at Stawki in Warsaw. During the first stage, an A class office facility is planned to be built on the existing parking lot in front of the Intraco office building. As part of the second stage, demolition of the existing Intraco building and construction of a new high rise office building is contemplated. An agreement with the architectural firm JEMS Architekci for a two-stage development project was signed in October 2014. Design work includes preparation of a comprehensive design of the facility, as well as the analyses, expert opinions and approvals that are necessary to obtain the construction permit, selection of the general contractor and execution of the project.

Lewandów project, a retail and service centre, Warsaw - as part of the project, it is planned to build retail and service facilities with gross leasable area (GLA) of ca. 60,000 m² on a part of the land with the total area of 25.4 ha. The project will be divided into several stages. At present, a part of the property is leased to a McDonald's restaurant. In 2014, the Group negotiated joint execution of subsequent facilities with potential partners. Actions were taken to obtain development terms and conditions for another retail facility on the property and infrastructure works were performed (buildings access roads and connecting the utilities). A PHN Group company - PHN SPV 7 Sp. z o.o., which owns the property, obtained permits for the construction of a retail facility on a part of the property in the BTS system.

Projects under preparation:

Świętokrzyska project in Warsaw - City Tower - in place of the present developed property at Świętokrzyska 36 in Warsaw, on a land plot of the 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 has been completed nearby, a direct connection of the facility with the station can be designed. The Group continued preparation for the project execution under the joint venture agreement with Hochtief.

Bartycka project in Warsaw - the Group plans to build an exhibition and retail facility with a service function on a property with the area of 7.6 ha. An analysis of the absorptive properties of the ground was performed in 2014. The analysis defined the optimum conditions for the construction of the BARTYCKA RETAIL HUB project and the opportunities for constructing facilities with various functions on this land.

Wilanowska project, Warsaw - staged construction of two 6-storey A class office buildings with the gross leasable area (GLA) of ca. 27,585 m² is planned on a property with the area of ca. 1.29 ha at Aleja Wilanowska 372. At present, design work has been commenced with the aim of obtaining a construction permit for the project.

Moreover, new residential projects are planned to be commenced in 2015 - Prymasa Tysiąclecia and Wilanów.

The Prymasa Tysiąclecia project involves the construction of an attractive housing development – both in terms of location and concept – supplemented by an office building which should act as sound insulator for the apartment buildings. The project stipulates the creation of user-friendly, low-density city space with access to such facilities as a kindergarten and various service outlets. Analyses show that 476 modern apartments may be built with usable area of 25.1 thousand m2. Most of the apartments are to have views on both sides of the building, balconies and small gardens. The office building will have a GLA of 10.7 thousand m2.

At the heart of High Wilanów, in a quiet and peaceful location there are several buildings which had been constructed in the mid-eighties of the 20th century. They have been designed as apartment buildings, but are currently leased to service outlets and for office purposes. The project stipulates constructing buildings for housing purposes in the location. Work on the Optimum Land Development Study was commenced with the aim of selecting one of the two project variants: replacement of the existing buildings, or supplementing the existing buildings with new ones (with an option of demolishing the existing buildings.

12. Assessment of the feasibility of the planned projects

The Group has full capability to perform the planned projects. The projects will be financed from own funds and external financing sources (e.g. bank loans, issue of bonds). An external financing source will be selected each time for a particular investment project. Funds from disposal of real estate will be one of the sources of own capital for financing new investment projects. Moreover, the Group plans to execute the biggest commercial projects as part of joint ventures with business partners. It is predicted that in such cases capital expenditures associated with particular commercial projects will be incurred by the Group and its joint venture partners.

13. Contracts with Management Board members defining payment of severance pay in the event of their resignation or dismissal for no important reason

Contracts with Management Board members of Polski Holding Nieruchomości S.A. provide for payment of a severance pay in the amount of three times the monthly salary in the event of their resignation or dismissal for no important reason.

In addition, Management Board members of Polski Holding Nieruchomości S.A. signed no-competition agreements and for this reason, upon termination of the employment contract, they will be entitled to one-off compensation.

14. Remuneration of Management Board and Supervisory Board members

Remuneration of Management Board and Supervisory Board members of Polski Holding Nieruchomości S.A. for 2014 was as follows:

Remuneration of Management Board members for 2014:

Full name	Remuneration received from the parent company (PLN)	Remuneration received from subsidiaries (PLN)
Artur Lebiedziński	308 586	217 417
Paweł Laskowski-Fabisiewicz	522 749	341 660
Rafał Krzemień	512 130	160 378
Sławomir Frąckowiak	513 020	157 724
Włodzimierz Stasiak	387 806	257 317
Mateusz Matejewski	49 251	33 044
Total	**2 293 542**	**1 167 539**

Remuneration of Supervisory Board members for 2014:

Full name	Remuneration received from the parent company (PLN)
Józef Banach	41 455
Izabela Felczak-Poturnicka	41 455
Marzena Kusio	41 455
Antoni Leonik	41 455
Marcin Marczuk	41 455
Mateusz Matejewski	33 044
Krzysztof Melnarowicz	41 455
Total	**281 774**

Supervisory Board members of PHN S.A., other than Mr Mateusz Matejewski, did not receive remuneration from other Group companies.

15. Employee share programme

No employee share programme is in place at the Group.

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

Full name	Shares of the parent company		Shares of the subsidiaries	
	Number of shares	Par value of shares (PLN)		Number of shares
Rafał Krzemień	3 470	3 470	0	0
Total	**3 470**	**3 470**	**0**	**0**

Numbers of shares held by Management and Supervisory Board members are given according to the received confirmations as at 12 March 2015. In the period from 6 November 2014 to 12 March 2015, the number of shares of Polski Holding Nieruchomości S.A and its subsidiaries held by members of the Management and Supervisory Board decreased by 1 145.

17. Information on agreements of which the parent company is aware that may affect the shareholding structure in the future

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

18. Factors affecting financial and operating results of the Group

The following factors have affected and will affect the financial and operating results of the Group:

- ✓ the economic situation in Poland,
- ✓ the real estate market in Poland,
- ✓ the regulatory environment,
- ✓ factors affecting lease revenues,
- ✓ factors affecting revenues from residential development business,
- ✓ some types of activity of legal predecessors,
- ✓ property valuation,
- ✓ changes in the composition of the Group's properties portfolio,
- ✓ legal status of the Group's properties,
- ✓ costs of real estate maintenance and capital expenditures on modernization,
- ✓ restructuring of the Group,
- ✓ capital expenditure on execution of investment programmes and residential development projects,
- ✓ corporate income tax,
- ✓ change in the Group structure,
- ✓ employment costs and costs of third party services, and
- ✓ compensation for expropriated properties.

Appendix no. 1 Corporate governance statement

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

1. The set of corporate governance rules applied by the Company and the place in which this set of rules is available to the general public

Since 13 February 2013, Polski Holding Nieruchomości S.A. has been a public company listed at the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) and it has followed the rules of corporate governance.

The set of corporate governance rules is contained in the document "Good Practices for Listed Companies", which is attached to the Resolution no. 19/1307/2012 of the Stock Exchange Council of 21 November 2012. The Good Practices entered into force on 1 January 2013.

The said set of rules is available to the general public on the website of the Warsaw Stock Exchange devoted to corporate governance at www.corp-gov.gpw.pl.

2. The extent to which the Company decided not to apply the set of corporate governance rules mentioned in section 17.1 and the reasons for not applying them

The Company's aim is to ensure, to the greatest extent possible, transparency of its activities, satisfactory communication with investors and protection of shareholders' rights, also in matters not regulated by law. Therefore, the Company has taken actions that are necessary to ensure the fullest possible compliance with the rules set out in the Good Practices for Companies Listed at the WSE.

In 2014, the Company's Management Board complied with all corporate governance rules discussed in the Good Practices for Companies Listed at the WSE except the following:

- ✓ Recommendation 5 - in the part relating to having the payroll policy and the principles for defining such a policy.

The Company does not have a payroll policy or the principles for defining such policies with regard to the Supervisory Board and Management Board members. It does, however, consider the possibility of developing such policies and procedures in the future. In accordance with the Articles of Association, the principles for remunerating the Management Board members and the amount of their remuneration are determined by the Supervisory Board taking into account the applicable legal regulations.

- ✓ Recommendation 9 - in the part relating to ensuring equal proportions of women and men in the management and supervisory functions.

To date, the Company has not ensured equal proportions of women and men in the Management Board and the Supervisory Board. There are no women in the Management Board, which

consists of three persons. There are two women in the Supervisory Board, which consists of six persons: Ms. Izabela Felczak-Poturnicka (Deputy Chair of the Supervisory Board) and Ms. Marzena Kusio (Secretary of the Supervisory Board). The Company supports the above-mentioned recommendation, however, decisions concerning the Supervisory Board composition are made by the General Shareholders' Meeting. The Company has a policy of employing competent, creative persons with adequate professional experience and education.

- ✓ Recommendation 12 - in the part relating to giving shareholders the opportunity to vote at the General Shareholders' Meeting (in person or by proxy) outside the place where the GSM is held using the means of electronic communication.

To date, the Company has not decided to provide the shareholders with the opportunity to vote at the General Shareholders' Meeting outside the place where the GSM is held using the means of electronic communication. The Company is considering the implementation of such a policy in the future.

- ✓ Good Practice II.9a - in the part relating to publishing recordings of General Shareholders' Meetings on the Company's website (in the audio or video format).

In 2014, the Company published recordings of General Shareholders' Meetings on its website in the audio format. However, this principle was violated once - due to technical problems, the Annual General Shareholders' Meeting held on 11 April 2014 was not recorded in full, and, consequently, the recording was not published on the Company's website. For this reason, the Company did not comply with the above-mentioned Good Practice for Companies Listed at the WSE. This violation was incidental and the Company is going to comply with this Good Practice in the future. Moreover, the Company is considering the publication of video recordings of General Shareholders' Meetings in the future.

- ✓ Good Practice III.8 - in the part relating to the existence of Supervisory Board committees whose tasks and functions are regulated by Annex I to the Recommendation of the European Commission of 15 February 2005 on the role of non-executive directors.

The Company does not have the Committees mentioned in Annex I to the Commission Recommendation of 15 February 2005, i.e. the Nomination Committee and the Remuneration Committee. In accordance with the Articles of Association, the Supervisory Board may appoint committees other than the audit committee, in particular the nomination committee and the remuneration committee, and the specific tasks of such committees, as well as the principles for their appointment and functioning, are defined in the Supervisory Board Rules and Regulations.

The Company expects that the Supervisory Board Rules and Regulations will require candidates for the Supervisory Board or Supervisory Board members, immediately after their appointment, to submit to the Company a statement of compliance with the independence criteria defined in Annex II to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board, and to notify the Company immediately of any changes in this respect occurring during their term of office.

- ✓ Good Practice IV.10 - in the part relating to providing shareholders with an opportunity to participate in General Shareholders' Meetings with the use of the means of electronic communication, such as (i) live broadcast of the General Shareholders' Meeting, and (ii) real-time bilateral communication enabling the shareholders to speak at the General Shareholders' Meeting from a remote location.

To date, the Company has not decided to provide shareholders with an opportunity to participate in General Shareholders' Meetings with the use of the means of electronic communication, such as (i) live broadcast of the General Shareholders' Meeting, and (ii) real-time bilateral communication enabling the shareholders to speak at the General Shareholders' Meeting from a remote location. The Company informed about its non-compliance with this Good Practice for Companies Listed at the WSE in its Current Report EBI no. 1/2014 of 12 March 2014. The Company is considering the implementation of such a policy in the future.

Should the implementation of corporate governance rules require changes in the Company's corporate documentation (the Articles of Association, the Management Board Rules and Regulations, the Supervisory Board Rules and Regulations), the Management Board will initiate the necessary actions. The Management Board is going to recommend to the Supervisory Board and the General Shareholders' Meeting complying with all Good Practices for Companies Listed at the WSE, save for the above-mentioned exceptions. It should be noted that any decisions as to compliance with some of the rules defined in the Good Practices for Companies Listed at the WSE lie with the Company's shareholders and the Supervisory Board.

3. Description of the main characteristics of the Group's internal audit and risk management systems used in the process of preparation of financial statements and consolidated financial statements

The internal audit and risk management systems used in the process of preparation of financial statements and consolidated

financial statements comprise the internal regulations, procedures and tools applied by the Group.

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

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

4. Shareholders directly or indirectly holding significant blocks of shares

The shareholders holding, directly or indirectly through their subsidiaries, at least 5% of the total number of votes at the General Shareholders' Meeting of Polski Holding Nieruchomości S.A., according to their shareholding and percentage interest in the share capital as at 16 March 2015 as disclosed in the notifications submitted to the Company pursuant to Art. 69 of the Act on public offering and the terms and conditions for introducing financial instruments to the public trading system and on public companies, include:

Shareholders

	Number of shares	% of votes at the GSM
The State Treasury	32,655,617	70.25%
ING OFE	2,342,475	5.04%
Aviva OFE	2,188,915	4.71%
Others	9,295,037	20.00%
Total	**46,482,044**	**100.00%**

5. Holders of securities giving special controlling powers.

The Company's Articles of Association give special powers to one shareholder - the State Treasury:

✓ § 15.6 of the Articles of Association

"In the period in which the State Treasury holds more than 50% of the total number of Shares in the Company's share capital, as long as the said requirements result from generally binding laws, the Management Board members are appointed by the Supervisory Board after the qualification procedure performed based on the Decree on the qualification procedure for the positions of Management Board members at certain commercial companies."

✓ § 25.2 of the Articles of Association

"In the period in which the State Treasury holds more than 50% but less than 100% of the Shares in the Company's share capital, the remuneration policy and amount of remuneration payable to the Management Board members, including the Chairman of the Management Board, are defined by the General Shareholders' Meeting subject to the provisions of the Act on remuneration of managers of certain legal entities."

✓ § 32.2 of the Articles of Association

"The State Treasury, represented by the Minister of the State Treasury, is entitled to appoint and dismiss, in writing, one Supervisory Board member during the period in which the State Treasury is the Company's shareholder. Irrespective of the above, the State Treasury is entitled to elect the other Supervisory Board members at the General Shareholders' Meeting. This regulation applies from the moment of the introduction of the Company's shares to trading on a regulated market."

✓ § 32.7 of the Articles of Association

"A Supervisory Board member submits his resignation to the Management Board in writing at the address of the Company's registered office, with a copy for the Minister of the State Treasury as a long as the State Treasury is the Company's shareholder."

✓ § 43.4 of the Articles of Association

"A shareholder or shareholders representing at least one twentieth of the share capital can demand placing certain issues on the agenda of the next General Shareholders' Meeting. This applies also to the State Treasury, as long as it remains the Company's shareholder."

6. Limitations of voting rights

The rights to vote are not limited in any way by the Articles of Association or any other internal regulations of the Issuer.

7. Limitations relating to transfer of ownership of the Company's securities

1. The shares of Warszawski Holding Nieruchomości S.A., Intraco S.A. and Budexpo Sp. z o.o. could not be traded before 16 July 2013 (the shares acquired by employees performing the functions of Management Board members - before 16 July 2014).
2. The shares of Dalmor S.A. could not be traded before 29 December 2013 (the shares acquired by

employees performing the functions of Management Board members - before 29 December 2014).

3. The rights resulting from subscription warrants held can be exercised not earlier than 12 months after the date of acquisition of the warrants.
4. The rights resulting from subscription warrants can be exercised within 10 years from the date of passing the issue resolution of 11 October 2011.
5. A written consent of the Company is required to dispose of subscription warrants, e.g. to sell or encumber them.

8. Rules for appointing and dismissing members of the Company's management and a description of their powers

The Management Board can consist of one to six members, including the Chairman of the Board and (if the Management Board consists of more than one person) the Deputy Chairman and other Management Board members, who are elected by the Supervisory Board for a joint term. The number of members can change during a term. The term of office of Management Board members is three years.

The Chairman manages the work of the Management Board, convenes and presides over its meetings. The Chairman of the Management Board can authorize another Management Board member to convene and preside over Management Board meetings.

Management Board members or the entire Management Board are appointed and dismissed by the Supervisory Board, subject to the provisions of clause 2 and § 15.6 of the Company's Articles of Association. Each Management Board member can be dismissed or suspended by the General Shareholders' Meeting or the Supervisory Board. The Supervisory Board can suspend a Management Board member for important reasons. A Management Board member submits his resignation to the Supervisory Board in writing at the address of the Company's registered office, with a copy for the Minister of the State Treasury as long as the State Treasury it the Company's shareholder.

Powers of the Management Board

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

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

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

9. The Articles of Association amendment procedure

An amendment to the Issuer's Articles of Association requires a resolution of the General Shareholders' Meeting (§ 48.5.4 of the Articles of Association). Such resolutions are passed by a majority of three quarters of the votes. A request for amendment to the Articles of Association should be submitted with a statement of grounds and a written opinion of the Company's Supervisory Board (§ 49 of the Articles of Association). The obligation to present matters that require a General Shareholders' Meeting resolution to the Supervisory Board for consideration and opinion also follows directly from § 8.1.1.15 of the Supervisory Board Rules and Regulations adopted by the Supervisory Board on 11 October 2012 (resolution no. 41/10/2012).

Pursuant to § 28.1.9) of the Articles of Association, the Supervisory Board adopts the consolidated text of the Company's Articles of Association. The consolidated text of the Articles of Association is prepared by the Management Board. Amendments to the Articles of Association are filed by the Management Board with the registration court.

10. The composition of the Company's management and supervisory bodies and their committees, changes during the year and description of their activities.

The term of office of the Management Board and the Supervisory Board of PHN S.A. is three years. The first term ended in 2014.

As at 1 January 2014, the Management Board consisted of five members:

Artur Lebiedziński - Chairman of the Board
Paweł Laskowski-Fabisiewicz - Deputy Chairman
Rafał Krzemień - Management Board Member
Sławomir Frąckowiak - Management Board Member
Włodzimierz Stasiak - Management Board Member responsible for finance

On 28 February 2014, the Supervisory Board appointed Mr Artur Lebiedziński for the position of Chairman of the Management Board for the second term and Mr Włodzimierz Stasiak for the position of Management Board Member responsible for finance. The Supervisory Board resolutions entered into force on the date of the Annual General Shareholders' Meeting for 2013, i.e. on 11 April 2014, in connection with the fact that the appointed persons were released from liability for the performance of their duties in 2013 by the Annual General Shareholders' Meeting. On 20 October 2014, the Supervisory Board temporarily delegated the duties of Deputy Chairman of the Management Board - Management Board Member responsible for Property Management to Mr Mateusz Matejewski, a Supervisory Board Member, for a period of up to 3 months. Subsequently, on 6 February 2015, the Supervisory Board appointed Mr Mateusz Matejewski for the position of Deputy Chairman - Management Board Member responsible for Property Management at Polski Holding Nieruchomości S.A. In connection with the above, on 6 February 2015 Mr Mateusz Matejewski resigned from the position of Member of the Issuer's Supervisory Board.

On 1 January 2014, the Supervisory Board consisted of the following persons:

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

On 11 April 2014, the Annual General Shareholders' Meeting appointed the following persons for a new, three-year joint term of office of the Supervisory Board: Mr Józef Banach, Ms. Izabela Felczak-Poturnicka, Ms. Marzena Kusio, Mr Krzysztof Melnarowicz, Mr Antoni Leonik, Mr Marcin Marczuk, and Mr Mateusz Matejewski. On 6 February 2015, Mr Mateusz Matejewski resigned from the position of a Supervisory Board Member of the Issuer due to being appointed Deputy Chairman - Management Board Member responsible for Property Management.

Description of the activities of the management bodies

All issues outside the normal operations of the Company require Management Board resolutions.

In particular, the following issues require Management Board resolutions:

1) adopting the Management Board Rules and Regulations,
2) adopting the Organizational Rules and Regulations,
3) opening and closing branches,
4) appointing proxies,
5) taking out loans and borrowings,
6) adopting annual budgets and long-term strategic plans,
7) acquiring (taking up) or disposing of the following assets:
   (a) real estate, perpetual usufruct or interest in real estate,
   (b) tangible fixed assets other than real estate,
   (c) shares or other interest in companies with a value exceeding EUR 200,000.00,
8) encumbering assets that meet the criteria referred to in clause 7 above with limited property rights for the amount (amount of collateral) exceeding EUR 200,000.00,
9) concluding on behalf of the Company other agreements than referred to above or incurring other liabilities with a value exceeding EUR 200,000.00,
10) issues presented by the Management Board to the Supervisory Board or the General Shareholders' Meeting for consideration,
11) determining the manner of voting at the General Shareholders' Meeting of the Company or of companies in which the Company holds shares; payment of interim dividend.

The Management Board is responsible for developing plans mentioned in clause 6 and submitting them to the Supervisory Board for approval. The Management Board may also pass resolutions in all other matters placed on the agenda of a Management Board meeting in an appropriate manner defined in the Management Board Rules and Regulations.

Management Board members can take part in the process of passing resolutions by submitting a written vote through another Management Board member. Issues placed on the agenda

during a Management Board meeting cannot be voted on in writing. The Management Board can pass resolutions in writing or with the use of the means of direct remote communication.

Activities of the supervisory bodies

The activities of the Supervisory Board are regulated by the Company's Articles of Association and the Supervisory Board Rules and Regulations (as well as by the generally applicable laws). The Supervisory Board constantly supervises the Company in all aspects of its operations.

The powers of the Supervisory Board include in particular:

1) verification of the Directors' Report and the financial statements for the previous financial year for consistency with the books of account, documents and the facts. The same applies to the consolidated financial statements of the Group and its Directors' Report,
2) evaluation of the Management Board proposals concerning appropriation of profit or offset of loss,
3) submitting written reports on the activities mentioned in items 1) and 2) to the General Shareholders' Meeting,
4) selection of a registered auditor for auditing the financial statements,
5) defining the scope and dates for submitting by the Management Board of annual budgets of the Company and the Group and long-term strategic plans of the Company and the Group,
6) approval of long-term strategic plans of the Company and the Group,
7) approval of annual budgets of the Company and the Group,
8) passing the Supervisory Board Rules and Regulations,
9) adopting the consolidated text of the Articles of Association prepared in accordance with § 57.3,
10) approval of the Management Board Rules and Regulations,
11) approval of the Organizational Rules and Regulations,
12) approval of the remuneration policy applicable to members of the authorities of Group companies.

The powers of the Supervisory Board include granting consent to the Management Board for:

1) acquiring (taking up) or disposing of the following assets:

   (a) real estate, perpetual usufruct or interest in real estate,

   (b) tangible fixed assets other than real estate,

   (c) shares or other interest in companies with a value of EUR 500,000.00 or higher,
2) encumbering assets that meet the criteria referred to in clause 1 above with limited property rights for the amount (amount of collateral) exceeding EUR 500,000.00,
3) issuing bills of exchange,
4) concluding agreements on behalf of the Company concerning donations, forgiveness of debt or other agreements not relating to the Company's business activities as described in the Articles of Association, in particular sponsoring agreements, with a value exceeding the equivalent of EUR 5,000.00,
5) granting guarantees and warranties on behalf of the Company to entities other than Group companies,
6) concluding on behalf of the Company other agreements than referred to above or incurring other liabilities with a value equal to or exceeding EUR 500,000.00; however, concluding such agreements with Group companies does not require consent,
7) payment of interim dividend.

In accordance with the Articles of Association, the Supervisory Board consists of five to nine members who are appointed by the General Shareholders' Meeting for a joint three-year term. Pursuant to § 32.2 of the Articles of Association, the State Treasury shall be authorized to appoint and dismiss, in writing, one Supervisory Board member in the period in which the State Treasury is the Company's shareholder.

Irrespective of the above, the State Treasury is entitled to elect the other Supervisory Board members at the General Shareholders' Meeting. The powers of the State Treasury defined above entered into force at the moment of admission of the Company's shares to trading on a regulated market.

The Chairman of the Supervisory Board is appointed by the General Shareholders' Meeting. Supervisory Board members elect Deputy Chairman and Secretary of the Supervisory Board at their first meeting. The number of Supervisory Board members shall be determined by the General Shareholders' Meeting.

Pursuant to § 32.4 of the Articles of Association, if due to the fact that the mandates of some of the Supervisory Board members have expired (for reasons other than dismissal) the Supervisory Board has fewer members than the number determined by the General Shareholders' Meeting (but at least five), the Supervisory Board is capable of passing valid resolutions.

The Supervisory Board holds meetings at least once in two months. For the Supervisory Board resolutions to be valid, all its members must be invited and at least half must be present at the meeting, including the Chairman or Deputy Chairman of the Supervisory Board. Supervisory Board resolutions are passed by an absolute majority of votes. In the event of equal number or votes "for" and "against", the Chairman of the Supervisory Board has a casting vote.

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

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

Audit Committee

The Supervisory Board appoints the Audit Committee composed of at least three Supervisory Board members, including at least one member who should satisfy the independence criteria within the meaning of Art. 86.5 of the Act on registered auditors and be qualified in the area of accounting or auditing. The Supervisory Board consisting of five members can perform the functions of an audit committee.

The Supervisory Board can also appoint other committees, in particular the nomination committee and the remuneration committee. Detailed tasks of the committees, as well as the principles for their appointment and functioning, are refined in the Supervisory Board Rules and Regulations.

On 16 January 2013, the Company's Supervisory Board held a meeting at which it passed a resolution on appointing the audit committee of the Supervisory Board and electing its members. Three Supervisory Board members were elected to the audit committee of the Supervisory Board for the first term: Mr Józef Banach, Ms. Izabela Felczak-Poturnicka and Mr Marcin Marczuk. On 9 May 2014, based on a Supervisory Board resolution, the following Supervisory Board members were elected to the audit committee of the Supervisory Board for the 2nd term: Mr Józef Banach, Ms. Izabela Felczak-Poturnicka, Ms. Marzena Kusio and Mr Marcin Marczuk.

Józef Banach meets the criteria set out in Art. 86. 4 of the Act on registered auditors.

The audit committee is responsible in particular for:

1. supervising the organizational units responsible for internal audit;
2. monitoring the financial reporting process;
3. monitoring the effectiveness of internal control, internal audit and risk management systems;
4. monitoring the audit of the financial statements;
5. monitoring the independence of the registered auditor and the audit firm, also with respect to non-audit services provided to the Company;
6. recommending an audit firm for performing the audit of the Company's financial statements to the Supervisory Board.

11. The procedures of the General Shareholders' Meeting, its main powers and the manner of exercising them

The General Shareholders' Meeting operates in accordance with the Articles of Association and the General Shareholders Meeting Rules and Regulations, which define in particular the procedures for the General Shareholders' Meeting operations, meetings and passing resolutions. The General Shareholders' Meeting Rules and Regulations are available on the Issuer's website. The General Shareholders' Meeting can be annual or extraordinary. The General Shareholders' Meeting can be held at the Company's registered office in Warsaw or elsewhere in the territory of the Republic of Poland.

The Company's Management Board convenes the General Shareholders' Meeting:

1) on its own initiative,
2) at a written request of the Supervisory Board,
3) at a written request of a shareholder or shareholders in the manner defined in the Commercial Companies Code,
4) at a written request of the State Treasury (as long as it is the Company's shareholder).

The powers of the General Shareholders' Meeting include in particular:

1) consideration and approval of the Directors' Report and the financial statements for the previous financial year;
2) appropriation of profit or offset of loss;

3) releasing the Management Board and Supervisory Board members from liability for the performance of their duties;

4) making decisions concerning claims for damages caused in connection with the Company's formation, its management or supervision;

5) selling or leasing out the Company's enterprise or an organized part thereof or establishment of a limited right in property thereon;

6) making amendments to the Articles of Association;

7) increasing and decreasing the share capital;

8) business combination, split or transformation of the Company;

9) winding up the Company and commencing its liquidation;

10) considering and granting requests submitted by the Supervisory Board; and

11) other matters reserved for the General Shareholders' Meeting by law or the Articles of Association.

Voting rights

One share carries one vote at the General Shareholders' Meeting. The General Shareholders' Meeting is valid irrespective of the number of shares represented.

The right to submit draft resolutions to the Company

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

The right to request copies of the annual financial statements

Every shareholder of the Company is entitled to request copies of the Directors' Report and the financial statements, as well as a copy of the Supervisory Board report and the registered auditor's opinion, not later than fifteen days before the General Shareholders' Meeting.

The right to obtain information

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

The Management Board shall deny information if providing it could have an adverse effect on the Company, the Company's related entity or its subsidiary (or a cooperative which is the Company's subsidiary). This concerns in particular technical, commercial or organization secret of the enterprise. A Management Board member can deny information if providing it could expose him or her to criminal, civil or administrative liability.

Information provided to a Company's shareholder should be made available to the general public in the form of a current report.

A shareholder who has been denied the required information during the General Shareholders' Meeting and whose objection has been recorded in the minutes may submit a motion to the registration court for imposing an obligation on the Management Board to provide such information. Such a motion should be submitted within a week of the end of the General Shareholders' Meeting during which the information was denied. A shareholder may also submit a motion to the registration court for imposing an obligation on the Company to publish information provided to another shareholder outside the General Shareholders' Meeting. In accordance with the Decree on Reports, the Company shall be obliged to issue current reports containing information provided to shareholders by the Management Board under the obligation imposed by the registration court in the cases referred to above.

The right to request copies of motions

Every shareholder of the Company is entitled to request copies of motions concerning matters placed on the agenda of the next General Shareholders' Meeting. Such requests should be submitted to the Management Board. Copies of motions should be provided not later than a week before the General Shareholders' Meeting.

The right to request that the Supervisory Board be elected by voting in separate groups

At the request of the Company's shareholders representing at least one-fifth of the Company's share capital, the Supervisory Board should be elected by the next General Shareholders' Meeting by voting in separate groups, even if the Articles of Association provide for another method of appointment of the Supervisory Board. In such cases, the method set out in the Articles of Association shall not be applicable, and the shareholders shall follow the procedure defined in the Commercial Companies Code. In the case of such elections, the

following method is applied: the total number of the Company's shares is divided by five (i.e. the total number of Supervisory Board members elected by voting in separate groups). The shareholders representing such a number of shares may form a separate group for the election of one Supervisory Board member and they cannot vote in the election of other members. If, after voting in separate groups, vacancies remain in the Supervisory Board, the shareholders who did not participate in any group shall have the right to elect the remaining Supervisory Board members by an ordinary majority of the votes.

The right to appeal against resolutions of the General Shareholders' Meeting

The Company's shareholders shall have the right to appeal against resolutions passed by the General Shareholders' Meeting by bringing action for revoking a resolution or declaring it invalid.

A resolution of the General Shareholders' Meeting which does not comply with the Articles of Association or good practices and is inconsistent with the Company's interest or harmful to a shareholder of the Company can be appealed against by bringing action against the Company for revoking the resolution. An action for revoking a resolution of the General Shareholders' Meeting should be brought within a month of learning about the resolution, not later, however, than within three months of the date of passing it.

A resolution of the General Shareholders' Meeting which is inconsistent with the Act can be appealed against in the form of an action for declaring the resolution invalid brought against the Company. An action for declaring a resolution of the General Shareholders' Meeting invalid should be brought within 30 days of its publication, not later, however, than within a year of the date of passing the resolution.

The following bodies and persons shall have the right to bring action for revoking a resolution of the General Shareholders' Meeting or declaring it invalid:

1) the Management Board, the Supervisory Board and their individual members;
2) a Company's shareholder who voted against the resolution and requested his objection to be recorded in the minutes after the resolution was passed;
3) a Company's shareholder who was not allowed to participate in the General Shareholders' Meeting; and
4) the Company's shareholders who were not present at the General Shareholders' Meeting, provided that the General Shareholders' Meeting was not convened properly or the resolution passed concerned a matter that was not on the agenda.

Change in the rights of the Company's shareholders

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

The right to request appointment of a special auditor

Pursuant to Art. 87 of the Public Offering Act, at the request of the Company's shareholder or shareholders holding at least 5% of the total number of votes, the General Shareholders' Meeting can pass a resolution on appointing an expert auditor to examine, at the Company's expense, a specific issue relating to the Company's formation or the management of its affairs. For this purpose, such shareholders can request the Extraordinary General Shareholders' Meeting to be convened or such a resolution to be placed on the agenda of the next General Shareholders' Meeting. The request should be submitted in writing to the Management Board not later than a month before the proposed date of the General Shareholders' Meeting. If the Extraordinary General Shareholders' Meeting is not convened within two weeks of submitting such a request to the Management Board, the registration court may, after demanding a statement from the Management Board, authorize the Company's shareholders who made that request to convene the Extraordinary General Shareholders' Meeting. The court shall appoint the president of such Extraordinary General Shareholder's Meeting.

A resolution of the General Shareholders' Meeting on the appointment of a special auditor should specify in particular:

1. identification of the special auditor who has been approved by the requester in writing;
2. the subject matter and scope of the examination, consistent with the request, unless the requester has agreed in writing to change them.

These financial statements were approved by the Management Board of the Parent Company on 16 March 2015.

Włodzimierz Piotr Stasiak Member of the Management Board in charge of finance	**Mateusz Matejewski** Vice-President – Member of the Management Board in charge of Property Asset Management	**Artur Lebiedziński** President of the Management Board