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CAPITAL GROUP POLSKI HOLDING NIERUCHOMOŚCI SPÓŁKA AKCYJNA

CONSOLIDATED ANNUAL REPORT FOR THE YEAR 2013



**POLSKI HOLDING
NIERUCHOMOŚCI S.A.**

Consolidated annual report consists of:

- 1. Letter from the President of the Management Board**
- 2. Selected financial data**
- 3. The auditor's opinion and report on the consolidated financial statements for the year ended 31 December 2013**
- 4. Consolidated financial statements for the year ended 31 December 2013**
- 5. Polski Holding Nieruchomości S.A. Capital Group Management Board Report for the year ended 31 December 2013**

Dear all,

We have gone through another extremely successful year in the history of Polski Holding Nieruchomości Capital Group, when restructuring of the Group was continued and focus on new project development was made.

Our main goal is to maintain a leading position - and even more effective investor in commercial real estate market. We achieve this goal by (i) constant efficiency improvement of the property portfolio, (ii) selling off the assets that do not fit our strategy or generate sufficient income, (iii) investing in modern commercial projects run by our own or that we are ready to purchase from other developers. In 2013, commercial real estate market remained very competitive, but by abovementioned means we were able to: (i) attract new tenants to our properties, (ii) sell assets worth nearly PLN 70.0 m, as well as (iii) finalize the construction of prestigious office building Foksal City, complete modernization of office Rakowiecka City, start the investment of office complex Domaniewska Office Hub and acquire business partners to our other properties with outstanding development potential.

Effective implementation of strategic plans allowed us to achieve excellent financial results. It is my great pleasure to inform you that the consolidated financial results of Polski Holding Nieruchomości Capital Group for the year 2013 amounted to PLN 107.0 m.

On behalf of the Management Board of Polski Holding Nieruchomości I would like to sincerely thank to the Supervisory Board and Capital Group employee, whose commitment and cooperation were essential in achieving record-breaking financial results in the previous period. I would like to also thank to our shareholders for the trust in us. I believe that we deserved it. At the same time, I believe that in 2014 we will strengthen the market position of Polski Holding Nieruchomości Capital Group.

I encourage you to read the Annual Report of Polski Holding Nieruchomości Capital Group, for the year 2013.

Yours sincerely,

Artur Lebieckiński

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

POLSKI HOLDING NIERUCHOMOŚCI SPÓŁKA AKCYJNA

Consolidated financial statements for the year ended 31 December 2013
(all amounts are expressed in PLN million, unless stated otherwise)

Selected financial data

Selected consolidated financial data	in PLN million		in EUR thousand	
	Year ended		Year ended	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
I. Operating revenues	171.3	187.7	40 679.2	44 573.7
II. Result from operating activities	(7.0)	(232.5)	(1 662.3)	(55 212.5)
III. Profit/ (loss) before tax from continuing operations	(0.2)	(230.6)	(47.5)	(54 761.3)
IV. Net result	107.0	(185.8)	25 409.6	(44 122.5)
V. Cash flow from operating activities	34.2	(24.8)	8 121.6	(5 889.3)
VI. Cash flow from investing activities	10.2	21.7	2 422.2	5 153.2
VII. Cash flow from financing activities	(0.5)	(0.9)	(118.7)	(213.7)
VIII. Total net cash flow	43.9	(4.0)	10 425.1	(949.9)
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
IX. Total assets	2 457.8	2 297.6	592 640.8	554 012.3
X. Non-current liabilities	212.8	328.1	51 311.7	79 113.6
XI. Current liabilities	252.3	83.8	60 836.2	20 206.4
XII. Equity attributable to the equity holders of the parent	1 861.7	1 710.5	448 905.3	412 447.0
XIII. Issued capital	44.6	43.4	10 754.2	10 461.0
XIV. Number of shares (in pcs)	44 599 947	43 384 003	44 599 947	43 384 003
XV. Profit/(loss) per ordinary share from result attributable to the shareholders of the parent (in PLN/EUR)	2.29	(3.94)	0.54	(0.94)
XVI. Book value per share attributable to the shareholders of the parent (in PLN/EUR)	41.74	39.43	10.07	9.51

The above financial data for the year ended 31 December 2013 and for the year ended 31 December 2012 were converted to EUR according to the following rules :

- particular assets, equity and liabilities – based on the average exchange rate as of 31 December 2013 - 4.1472 PLN / EUR
- particular items of the consolidated statement of comprehensive income and consolidated 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 2013 to 31 December 2013 - 4.2110 PLN / EUR

Weighted average number of ordinary shares for the year ended 31 December 2013 amounted to 43 706 932 pcs. As of 31 December 2013, the number of ordinary shares amounted to 44 599 947 pcs and at the date of this report 45 622 181 pcs. The maximum number of ordinary shares may amount to 47 737 003 pcs due to conditional capital increase made.

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Consolidated financial statements for the year ended 31 December 2013

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**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

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



**POLSKI HOLDING
NIERUCHOMOŚCI S.A.**

A. Consolidated Financial Statements**Consolidated statement of financial position
as at 31 December 2013**

	Note	31 December 2013	31 December 2012
ASSETS			
Non-current assets			
Investment properties	8	1 927.9	1 911.5
Property, plant and equipment	9	24.6	50.8
Intangible assets	10	0.3	0.5
Investment in associates and joint-ventures	11	18.5	17.9
Deferred tax assets	18	2.9	0.1
Other non-current assets		0.6	0.1
Total non-current assets		1 974.8	1 980.9
Current assets			
Inventories related to developer business	12	65.4	84.3
Other inventories		0.0	0.2
Trade receivables and other assets	13,14	182.2	26.9
Current tax assets		0.2	1.6
Short-term financial assets	13	0.0	4.7
Cash and cash equivalents	13,15	217.8	173.9
Total current assets		465.6	291.6
Assets of disposal group classified as held for sale		17.4	25.1
TOTAL ASSETS		2 457.8	2 297.6
Equity and liabilities			
Equity			
Issued capital	16	44.6	43.4
Reserve capital	17	1 696.5	2 237.6
Revaluation reserve		3.2	3.2
Retained earnings/ (accumulated losses)	17	117.4	(573.7)
Equity attributable to the equity holders of the parent		1 861.7	1 710.5
Non-controlling interest		131.0	175.2
Total equity		1 992.7	1 885.7
Liabilities			
Non-current liabilities			
Long-term debt	13	1.1	1.5
Deferred tax liability	18	148.1	259.9
Non-current provisions	20	56.9	58.6
Other long-term liabilities	13	6.7	8.1
Total non-current liabilities		212.8	328.1
Current liabilities			
Trade and other payables	13	208.1	37.0
Short-term debt	13	0.4	0.5
Retentions for construction contracts		3.8	16.0
Current tax liability		0.6	0.0
Short-term provisions	20	39.4	30.3
Total current liabilities		252.3	83.8
TOTAL EQUITY AND LIABILITIES		2 457.8	2 297.6

Consolidated statement of comprehensive income
for the year ended 31 December 2013

	Note	Year ended	
		31 December 2013	31 December 2012
Operating activities			
Lease revenues		131.2	140.0
Cost of property maintenance		(59.1)	(70.5)
Lease result		72.1	69.5
Revenue from developer business		39.5	43.3
Cost of developer business	22	(29.8)	(44.0)
Developer business result		9.7	(0.7)
Revenue from other activities	21	0.6	4.4
Cost of other activities	22	(0.7)	(7.1)
Result on other activities		(0.1)	(2.7)
Administrative expenses		(46.2)	(54.6)
Change in the fair value of investment property		(32.2)	(222.1)
Profit/ (loss) on disposal of investment properties	8	1.2	0.7
Other revenues	21	20.5	7.0
Other costs	22	(32.0)	(29.6)
Profit / (loss) on operating activities		(7.0)	(232.5)
Finance income	24	7.4	9.3
Finance costs	24	(1.2)	(7.5)
Net Profit / (loss) from financing activities		6.2	1.8
Interest in results of associates and joint ventures	11	0.6	0.1
Profit / (loss) before tax from continuing operations		(0.2)	(230.6)
Income tax expense	25	107.4	42.8
Net profit/ (loss) from continuing operations		107.2	(187.8)
Net profit / (loss) from discontinued operations	26	(0.2)	2.0
Net profit / (loss)		107.0	(185.8)
Other comprehensive income			
Gain on the transfer of property, plant and equipment to investment property			2.2
Total other comprehensive income		0.0	2.2
Total comprehensive income		107.0	(183.6)
Net Profit/Loss attributable to:			
Equity holders of the parent		100.0	(170.8)
Non-controlling interest	27	7.0	(15.0)
Other comprehensive income attributable to:			
Equity holders of the parent		100.0	(168.6)
Non-controlling interests	27	7.0	(15.0)
Net earnings per share			
basic and diluted net earnings per share attributable to the shareholders of the parent	28	PLN 2.29	(PLN 3.94)
Net earnings per share from continuing operations			
basic and diluted net earnings per share attributable to the shareholders of the parent	28	PLN 2.29	(PLN 3.99)

POLSKI HOLDING NIERUCHOMOŚCI SPÓŁKA AKCYJNA

Consolidated financial statements for the year ended 31 December 2013
(all amounts are expressed in PLN million, unless stated otherwise)

Consolidated statement of changes in equity for the year ended 31 December 2013

Shareholders' equity attributable to the shareholders of the parent								
	Note	Issued capital	Reserve capital	Revaluation reserve	Retained earnings	Equity attributable to the equity holders of the parent	Non-controlling interest	Total equity
As at 1 January 2013		43.4	2 237.6	3.2	(573.7)	1 710.5	175.2	1 885.7
Net profit/ (loss)					100.0	100.0	7.0	107.0
Total comprehensive income for 2013					100.0	100.0	7.0	107.0
Share issue	16	1.2	31.4			32.6		32.6
Changes in the structure of non-controlling interest	17				18.6	18.6	(51.2)	(32.6)
Transfer between capital	17		(572.5)		572.5	0.0		0.0
As at 31 December 2013		44.6	1 696.5	3.2	117.4	1 861.7	131.0	1 992.7
As at 1 January 2012		43.4	2 237.6	1.0	(402.9)	1 879.1	190.2	2 069.3
Net profit/ (loss)					(170.8)	(170.8)	(15.0)	(185.8)
Other comprehensive income – transfer of property, plant and equipment to investment property				2.2		2.2		2.2
Total comprehensive income for 2012				2.2	(170.8)	(168.6)	(15.0)	(183.6)
As at 31 December 2012		43.4	2 237.6	3.2	(573.7)	1 710.5	175.2	1 885.7

Notes to the consolidated financial statements on pages 13-41 are an integral part of these consolidated financial statements

**Consolidated statement of cash flow
for the year ended 31 December 2013**

	Note	Year ended	
		31 December 2013	31 December 2012
Cash flow from operating activities			
Profit / (loss) before tax		(0.4)	(227.8)
Adjustments of cash flow from operating activities		34.6	203.0
Depreciation and amortization		2.0	2.6
Change in fair value of investment properties and result on disposal			221.4
Change in value of other assets and result on disposal	15	(13.1)	(0.7)
Interest in results of associates and joint-ventures		(0.6)	(0.1)
Net foreign exchange gains (losses)		0.0	0.7
Interest income from operating activity		(5.9)	(8.4)
Borrowing costs		0.0	0.2
Change in working capital	15	26.4	(7.6)
Income tax paid		(5.2)	(5.1)
Net cash flow from operating activities		34.2	(24.8)
Cash flow from investing activities			
Total inflow		44.9	42.6
Proceeds from sale of investment property		33.6	1.6
Proceeds from sale of property, plant and equipment and intangible assets		0.7	12.2
Financial instruments		4.6	20.5
Interest from investing activities		6.0	8.3
Total outflow		(34.7)	(20.9)
Expenditure for investment property		(34.4)	(20.3)
Purchase of property, plant and equipment and intangible assets		(0.3)	(0.6)
Net cash flow from investing activities		10.2	21.7
Cash flow from financing activities			
Total outflow		(0.5)	(0.9)
Finance lease payments		(0.4)	(0.7)
Borrowing costs		(0.1)	(0.2)
Net cash flow from financing activities		(0.5)	(0.9)
Total net cash flow		43.9	(4.0)
change in cash and cash equivalents		43.9	(4.7)
foreign exchange differences		0.0	(0.7)
Cash and cash equivalents at the beginning of the period		173.9	178.6
Cash and cash equivalents at the end of the period		217.8	173.9

Notes to the consolidated financial statements

1. Corporate information

The Parent Company of the Capital Group Polski Holding Nieruchomości S.A. is Polski Holding Nieruchomości S.A. („PHN S.A., Parent Company”) located in Warsaw, Świętokrzyska 36/ 30/27.

As at the balance sheet date of these consolidated financial statements, the controlling entity of PHN S.A. and its subsidiaries (jointly „Group”) was State Treasury.

The Capital Group consists of Polski Holding Nieruchomości S.A. as the Parent Company and its subsidiaries.

All subsidiaries of the Group are consolidated using the full consolidation method, while shares in the jointly-controlled entity are recognized in the consolidated financial statements using the equity method. All the entities of the Group were presented below.

Entity	Parent company	Share in capital and voting rights as at 31 December 2013	Share in capital and voting rights as at 31 December 2012
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Polski Holding Nieruchomości S.A. (PHN S.A.) – parent company

Subsidiaries

Warszawski Holding Nieruchomości S.A. (WHN S.A.)	PHN S.A.	93,96%	91,18%
INTRACO S.A.	PHN S.A.	89,21%	85,00%
BUDEXPO Sp. z o.o.	PHN S.A.	99,10%	98,65%
Dalmor S.A.	PHN S.A.	86,94%	86,94%
Wrocławskie Centrum Prasowe Sp. z o.o.	PHN S.A.	100,00%	100,00%
PHN Nieruchomości 3 Sp. z o.o.	WHN S.A.	99,9996%	100,00%
PHN Foksal Sp. z o.o.	WHN S.A.	100,00%	100,00%
Agroman Sp. z o.o.	WHN S.A.	100,00%	100,00%
Port Okrzei Sp. z o.o.	Agroman Sp. z o.o.	100,00%	100,00%
Investon Sp. z o.o.	WHN S.A.	100,00%	100,00%
Warton Sp. z o.o.	WHN S.A.	100,00%	100,00%
PHN 3 Sp. z o.o.	WHN S.A.	70,18%	100,00%
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	Dalmor S.A.	99,00%	99,00%

In 2013, 14 entities joined the Group:

PHN SPV 1 Sp. z o.o.	PHN S.A.	100,00%
PHN SPV 2 Sp. z o.o.	PHN S.A.	100,00%
PHN SPV 3 Sp. z o.o.	PHN S.A.	100,00%
PHN SPV 4 Sp. z o.o.	PHN S.A.	100,00%
PHN SPV 5 Sp. z o.o.	PHN S.A.	100,00%
PHN SPV 6 Sp. z o.o.	PHN S.A.	100,00%
PHN SPV 7 Sp. z o.o.	PHN S.A.	100,00%
PHN SPV 8 Sp. z o.o.	PHN S.A.	100,00%
PHN SPV 9 Sp. z o.o.	PHN S.A.	100,00%
PHN SPV 10 Sp. z o.o.	PHN S.A.	100,00%
PHN SPV 11 Sp. z o.o.	PHN S.A.	100,00%
PHN SPV 12 Sp. z o.o.	PHN S.A.	100,00%
Almeria Sp. z o.o.	PHN S.A.	100,00%
CINCO Sp. z o.o. - XXIX- spółka komandytowo-akcyjna	PHN S.A.	100,00%

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

2. Basis of preparation of consolidated financial statements

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by EU. ("IFRS UE")

As of the publishing date of the following financial statements, considering the EU implementation process of International Financial Reporting Standards and the Group activities concerning the Group accounting standards used, there are differences between binding International Financial Reporting Standards, and those adopted by EU. The company benefited from the opportunities in the case of the use of International Financial Reporting Standards approved by the EU, the application of IFRS 10, IFRS 11, IFRS 12, amended IAS 27 and IAS 28 from annual periods beginning on 1 January 2014.

The International Financial Reporting Standards comprise standards and interpretations adopted by the International Accounting Standards Board ("IASB") and by the International Accounting Standards Committee ("IASC").

These consolidated financial statements were prepared under the assumption that the Group will continue as a going concern in the foreseeable future. At the date of preparation of these consolidated financial statements, no circumstances were identified that could indicate threat to going concern regarding activities of Polski Holding Nieruchomości S.A. Capital Group.

The existence of the Parent Company and subsidiaries of the Polski Holding Nieruchomości Capital Group is unlimited.

Unless stated otherwise, all data in these consolidated financial statements of the Group are presented in PLN m. The reporting currency of the Group is Polish zloty („PLN”).

These consolidated financial statements have been prepared on a historical cost basis, except for investment properties and financial instruments categorized as valued at fair value through profit and loss.

Preparation of the consolidated financial statements in accordance with IFRSs requires certain significant accounting estimates to be made. It also requires the Management Board to make appropriate professional judgment in connection with the accounting policies adopted. The issues that require professional judgment, are particularly complex or relate to areas for which the assumptions and estimates made have a significant impact on the consolidated financial statements are presented in Note 5.3.

Representation of the Management Board on true and fair preparation of consolidated financial statements

Consistent with the requirement of the Regulation, the Management Board of Polski Holding Nieruchomości S.A. represents that, to its best knowledge, these consolidated financial statements and comparative figures have been prepared in accordance with the Group binding accounting policies and they present a true and fair view of financial situation and results of the Group and report on the activities of the Group presents a true view of the development and achievements and situation of the Group, including a description of the underlying risks.

Representation of the Management Board on the entity authorized to audit consolidated financial statements

The Management Board of Polski Holding Nieruchomości S.A. certifies that the entity qualified to audit the consolidated financial statements- Ernst & Young Audyt Polska Sp. z o.o. sp. k. (formerly: Ernst & Young Audit sp. z o.o.) has been elected in compliance with applicable laws and that the entity and the auditors who audited the financial statements met the conditions for an impartial and independent opinion on the audited annual consolidated financial statements in accordance with applicable laws and professional standards.

3. New standards and interpretations issued but not yet effective

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

- ✓ The first phase of IFRS 9 *Financial Instruments: Classification and Measurement* – not effective due to postponement by the IASB, without any date scheduled for the approval,
- ✓ IFRS 10 *Consolidated financial statements* - is applicable to annual periods beginning on or after 1 January 2013 – in EU is applicable no later than to annual periods beginning on or after 1 January 2014. The Company has decided to apply

IFRS for annual periods beginning on or after 1 January 2014,

- ✓ IFRS 11 *Joint Arrangements* - is applicable to annual periods beginning on or after 1 January 2013 – in EU is applicable no later than to annual periods beginning on or after 1 January 2014. The Company has decided to apply IFRS for annual periods beginning on or after 1 January 2014,
- ✓ IFRS 12 *Disclosure of Interests in Other Entities* - is applicable to annual periods beginning on or after 1 January 2013 – in EU is applicable no later than to annual periods beginning on or after 1 January 2014. The Company has

decided to apply IFRS for annual periods beginning on or after 1 January 2014,

- ✓ Amendments to IFRS 10, IFRS 11 and IFRS 12 *Temporary rules* - are applicable to annual periods beginning on or after 1 January 2013 – in EU is applicable no later than to annual periods beginning on or after 1 January 2014,
- ✓ IAS 27 *Separate Financial Statements* - is applicable to annual periods beginning on or after 1 January 2013 – in EU is applicable no later than to annual periods beginning on or after 1 January 2014. The Company has decided to apply IFRS for annual periods beginning on or after 1 January 2014,
- ✓ IAS 28 *Investments in Associates and Joint Venture* - is applicable to annual periods beginning on or after 1 January 2013 – in EU is applicable no later than to annual periods beginning on or after 1 January 2014. The Company has decided to apply IFRS for annual periods beginning on or after 1 January 2014,
- ✓ Amendments to IAS 32 *Financial Instruments: Presentation: Offsetting Financial Assets and Financial Liabilities* - are applicable to annual periods beginning on or after 1 January 2014,
- ✓ Amendments to IFRS 10, IFRS 12 and IAS 27 *Investment entities* (issued on October 31, 2012) - are applicable to annual periods beginning on 1 January 2014,
- ✓ IFRIC 21 *Levies* - applicable for annual periods beginning on or after 1 January 2014 not endorsed by the EU until the date of approval of these financial statements,

4. Significant accounting policies

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2012, except for the following amendments to standards and new interpretations effective for annual periods beginning on or after 1 January 2013:

- ✓ IAS 19 *Employee Benefits* (Amendments 2011) - effective for annual periods beginning on or after 1 January 2013,

Amendments to IAS 19 for defined benefit plans: include the following: cancellation of the "corridor" method, requirement of immediate recognition of changes in the assets / liabilities of the program and the immediate recognition of past service costs, recognition of actuarial gains / losses in other comprehensive income and expand the scope of disclosure.

The amendments also introduce changes in the division of short and long-term employee benefits .

- ✓ Amendments to IAS 36 *Disclosures concerning the recoverable amount of non-financial assets* (published on May 29, 2013) - as applicable for annual periods beginning on or after 1 January 2014,
- ✓ Amendments to IAS 39 *Novation of derivatives and continued hedge accounting* (published on 27 June 2013) - applicable for annual periods beginning on or after 1 January 2014,
- ✓ Amendments to IAS 19 *Defined benefit plans: Employee contributions* (published on November 21, 2013) - effective for annual periods beginning on or after 1 July 2014 - not endorsed by the EU until the date of approval of these financial statements,
- ✓ *Improvements resulting from IFRS reviews 2010-2012* - some of the amendments are effective for annual periods beginning on or after 1 July 2014, and some prospectively for transactions occurring on 1 July 2014 or later - not endorsed by the EU until the date of approval of these financial statements,
- ✓ *Improvements resulting from IFRS reviews 2011-2013* - applicable for annual periods beginning on or after 1 July 2014 - not endorsed by the EU until the date of approval of these financial statements,
- ✓ *IFRS 14 Regulatory Deferral Accounts* - effective for annual periods beginning on or after 1 January 2016 - not endorsed by the EU until the date of approval of these financial statements.

These standards and interpretations will have no material impact on the results and financial position of the Group.

The Group has applied retrospectively IAS 19 *Employee benefits* (changes in 2011) in accordance with the transitional regulations of this standard. The application of these amendments had no material impact on the financial position or comprehensive income of the Group.

- ✓ Amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* - applicable for annual periods beginning on or after 1 July 2013,

The amendments concern the classification of items of other comprehensive income. Items of other comprehensive income subject in the future to reclassification to profit or loss are presented separately from items that will not be reclassified to profit or loss.

- ✓ IAS 1 *Clarification of the requirement of comparative data* (change)

These amendments clarify the difference between voluntary additional comparative data and minimum requirements for comparative data. The Group should show comparative data in the additional notes when voluntarily provides additional comparative data for the comparative period in relation to the required minimum of one comparative period. The amendments clarify that the consolidated statement of financial position at the beginning of the comparative period, due to the retrospective conversion or reclassification of items in the consolidated statement of financial position need not to be accompanied by comparative data in the additional notes. The application of these amendments had no impact on the consolidated financial statements.

- ✓ Amendments to IAS 12 *Income: Tax*: Recovery of tax assets - applicable for annual periods beginning on or after 1 January 2012 - in the EU at the latest applicable for annual periods beginning on or after 1 January 2013,

The application of these amendments had no impact on the financial position, financial results of the Group, or the scope of information presented in the financial statements of the Group.

- ✓ IFRS 13 *Fair Value Measurement* - applicable for annual periods beginning on or after 1 January 2013,

IFRS 13 introduces a single set of rules on how to determine the fair value of financial and non-financial assets and liabilities, if such valuation is required or permitted by IFRS. IFRS 13 does not change the rule when the Group has an obligation to make a fair value valuation. IFRS 13 applies to both the valuation of initial and subsequent measurement.

IFRS 13 requires new disclosures in the techniques (methods) of valuation and information / data input to determine the fair value and the impact of certain input information on the valuation at fair value.

IFRS 13 defines fair value as an exit price. Following the guidelines of IFRS 13, the Group reassessed its policy on fair value measurements, in particular on input data such as default risk in the valuation of the fair value of liabilities. The application of IFRS 13 does not have a material impact on the results of fair value measurements of the Group. Additional disclosure where required, are included in the individual notes relating to the assets and liabilities whose fair values were determined. The fair value hierarchy are as follows:

- first level: financial instruments measured directly by quotations in an active market,
- second level: financial instruments measured by the observed current market transactions for the comparable financial instruments,
- third level: financial instruments measured using specific valuation techniques due to the lack of an active market.

- ✓ Amendments to IFRS 7 *Financial Instruments : Disclosures*: Offsetting Financial Assets and Financial Liabilities - applicable for annual periods beginning on or after 1 January 2013.

The amendments introduce additional disclosures quantitative and qualitative information on transfers of financial assets , if:

- financial assets are completely removed from the balance sheet, but the entity continue involvement in those assets (e.g. through options or guarantees regarding the transferred assets).
- financial assets are not entirely removed from the balance sheet,

The adoption of these changes had no impact on the financial position or results of the Group .

- ✓ Improvements resulting from IFRS review (published in May 2012) applicable for annual periods beginning on or after 1 January 2013 concerning IAS 16 and IAS 32 - the application of these amendments had no impact on the financial position, results of the Group, nor scope of information presented in the financial statements of the Group.

- ✓ Amendments to IFRS 1 *First time Adoption of International Financial Reporting Standards for the first time: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* - effective for annual periods beginning on or after 1 July 2012 - in the EU for annual periods beginning on or after 1 January 2013 and the Amendments to IFRS 1 *First time Adoption of International Financial Reporting Standards for the first time : Government Loans* - applicable for annual periods beginning on or after 1 January 2013.

Amendments to IFRS 1 did not affect the Group.

- ✓ IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* - effective for annual periods beginning on or after 1 January 2013,

The interpretation does not apply to the Group. The Group has not early adopted any other standard, interpretation or amendment that was issued but not yet effective except for:

- ✓ Disclosure of the recoverable amount of non-financial assets - Amendments to IAS 36 *Impairment of Assets*

These amendments remove unintended consequences of IFRS 13 concerning disclosures required by IAS 36. In addition , these amendments require disclosure of the recoverable amount of assets or cash-generating units for which it is recognized or reversed impairment loss in the period. These amendments are effective for annual periods beginning on or after 1 January 2014, with earlier application permitted, provided that it has been applied IFRS 13.

4.1 Foreign currency translation

4.1.1 Functional and presentation currency

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

4.1.2 Transactions and balances

Transactions expressed in foreign currencies are translated into 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 as prevailing on the date preceding that date. At the reporting date assets and liabilities expressed in foreign currencies are translated into Polish zloty using the average NBP exchange rate prevailing for the given currency at the year-end. Exchange differences arising from transaction settlement or from the year-end valuation of assets and liabilities are reported in the financial result.

4.1.3 Group companies

All companies belonging to the Group have the same functional and presentation currency which is Polish zloty (PLN). None of the companies operate in the hyperinflationary economy.

4.2 Intangible assets

Intangible assets of the Group comprise computer software. Acquired licenses for computer software are capitalised based on the acquisition cost or costs of bringing the given license to its intended use. These costs are amortised using the straight line method over the period of license useful life (up to 5 years).

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

The consolidated financial statements are presented in Polish zloty (PLN), which is the functional and presentation currency of the PHN Group.

Exchange differences relating to loans and borrowings and cash and cash equivalents are reported in the Statement of Comprehensive Income under „finance income” or „finance costs”. All other exchange differences are presented under “operating income” or “operating expenses”. Foreign exchange differences on translation of non-monetary assets or financial liabilities such as equity instruments are measured at fair value through profit or loss and are recognised in the financial result as part of the profit or loss on re-measurement to fair value. Foreign exchange differences on translation of such non-monetary financial assets such as financial instruments classified as available-for-sale financial assets are recorded under other comprehensive income.

straight-line method over their estimated useful lives, which are verified on a quarterly basis.

The expected useful lives are as follows:

- patents and licenses - up to 5 years
- other - up to 5 years

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

4.3 Property, plant and equipment

Property, plant and equipment held by the Group comprise:

- property (not leased and not held for trading) used by the Group assigned for administrative or for hotel running purposes,
- plant and machinery,

- motor vehicles,
- other assets which are complete and ready for use with an expected useful life of more than one year.

Property, plant and equipment are measured and presented in the Statement of Financial Position at acquisition cost or cost of

development less accumulated depreciation and impairment losses.

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

- buildings and constructions 22 - 40 years;
- plant and machinery 2 - 5 years;
- motor vehicles 1.5 - 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 recognised as separate item, but only if it is probable that future economic benefits will flow to the Group and the cost of the given item can be reliably measured. All other expenditure for repair and preventive maintenance is taken to the financial result for the period, in which it was incurred.

4.4 Investment properties

Property which was acquired or constructed for the purpose of generating benefits from its lease or from an increase in its value, or from both, and which is not used by the Group companies for administrative purposes is classified as investment property. Investment property comprises land, freehold buildings and perpetual usufruct of land.

The perpetual usufruct of land is recognized as a land ownership and is classified either as a property, plant and equipment or as an investment property, depending on its nature.

Investment property is initially stated at acquisition cost or cost of development.

After initial recognition investment property is stated at fair value based on comparative valuation method, income valuation method or residual value method. The fair value determined by income method is calculated using the expected cash flows based on the prices prevailing on an active market adjusted – if necessary – for the difference in the type, location or status of a given investment property is measured annually by independent valuers in accordance with the Practice Statements of the Royal Institution of Chartered Surveyors' (RICS) Appraisal and Valuation Standards (the „Red Book”) published in February 2003 and binding as of 1 May 2003. Remuneration for

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

Gains or losses on disposal of property, plant and equipment representing a difference between sales revenue and the carrying amount of the disposed asset are recognised in the consolidated financial result under other operating income and other operating expenses.

Assets under construction

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

investment property valuation is not related to the value of the investment property or valuation result.

The fair value of investment property reflects, among others, revenues from current lease agreements and assumptions relating to lease revenues under future agreements based on current market conditions. The carrying amount of investment property is increased by any subsequent expenditures if, and only if, it is probable that future economic benefits that are related to the asset will flow to the Group, and its value can be assessed in a reliable manner. All other repair and maintenance costs are recognized in the financial result in the period, in which they are incurred.

Gains or losses arising from changes in the fair value of investment property are recognised in the consolidated financial result in the period, in which they originated. Result on disposal of investment property is reported under separate item of consolidated statement of comprehensive income.

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

4.5 Impairment of non-financial assets

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

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

4.6 Operating and finance leases

(a) Group as Lessor

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

(b) Group as Lessee

✓ Operating lease

Lease agreements under which a significant part of all risks and rewards of ownership of an asset lies with lessor are operating lease agreements.

A lease payments under operating lease agreements are recognised as cost in the the consolidated statement of

comprehensive income on a straight line basis over the term of the lease.

✓ Finance lease

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

4.7 Financial assets

The Group classifies its financial assets into the following four categories:

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

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

The above classification is based on the criterion of the purpose of financial assets acquisition. The Management Board classifies its financial assets upon their initial recognition. Regular-way purchases and disposals of financial assets are recognised at the transaction date i.e. at the date on which the Group committed to purchase or sell the given asset. Financial assets are derecognized, where the right to receive the underlying cash flows expired or was transferred, and the Group transferred out substantially all of the risks and rewards of the ownership of those assets. Following initial recognition, financial assets available for sale and financial asset at fair value through profit or loss are stated at fair value. Loans and receivables and investments held to maturity are stated at amortized cost determined using the effective interest rate

4.8 Trade and other receivables

Trade and other receivables are initially stated in the statement of the financial position at fair value; after initial recognition, trade and other receivables are stated at amortized cost determined using the effective interest rate less impairment losses, if any. The value of receivables is adjusted by appropriate write-downs (an impairment write-down) reflecting their recoverability.

Impairment write-downs against trade and other receivables are recognised at the end of each quarter, if objective evidence exists that the Group will not be able to recover all amounts due and receivable under original terms and conditions. The objective evidence of receivables' impairment are serious financial problems of debtor or defaulted payment. The amount of the write-down is the difference between receivable's carrying amount and the present value of estimated future cash flows associated with the receivable. Impairment losses are

recognised in the consolidated statement of comprehensive income under other operating expenses. Appropriate impairment write-down is created for bad debts. Any future repayments of receivables for which an impairment write-down was recognised are taken to other operating income in the consolidated statement of comprehensive income.

Prepayments for inventory are stated at the amount of cash expensed and in accordance with 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 Group's financial results. Such receivables are stated in the consolidated statement of financial position in the amount due and receivable.

4.9 Inventories

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

Stocks of current assets are stated at acquisition cost of land property and cost of development of developer business products increased by capitalised finance costs.

Inventories are stated at the amounts not exceeding their net realisable value. The net realisable value is determined based on the information from an active market. Reversal of impairment recognised against inventories is made either on inventories disposal or on increase in their net realisable value.

Inventories impairment losses recognised in the period as cost and reversals of write-downs recognised as revenue are reported in the consolidated statement of comprehensive income under costs of developer business.

The Group classifies its housing stock as current assets or non-current assets according to the stage of their development (completion) under operating cycle of a given company. In the majority of cases, life period of a normal operating cycle lasts from 1 to 5 years. Open (uncompleted) housing projects are included under current assets.

Investment property which is adjusted to future sales are reclassified to inventories at deemed cost i.e. at their carrying amount at the date of reclassification. Following that they are stated at cost of development not higher than their net realisable value. Net realisable value is the estimated selling price achieved in ordinary course of business less the estimated costs of project completion and costs to sell.

4.10 Cash and cash equivalents

Cash on hand, cash at bank and short-term deposits held to maturity as well as other financial assets are stated at nominal value. Interests realised on short-term deposits are recorded in the consolidated statement of cash flow in investing activities.

Cash in foreign currencies is stated at the reporting date at the average NBP exchange rate prevailing for the given currency at year end. For the purposes of the statement of cash flow, the same definition of cash is adopted.

4.11 Discontinued operations

In 2011, the Management Board of the Dalmor S.A capital group conducted activities aimed at the liquidation of the fishing business and the liquidation of the company DKP Dalmor Sp. z o.o. The liquidation process of DKP Dalmor Sp. z o.o began on 5 October 2011. As at the date of these consolidated

financial statements DKP Dalmor Sp z o.o and Dalmor Fishing Limited were under liquidation proceedings and did not conduct any operating activities.

4.12 Issued capital

Issued capital is stated at nominal value registered in the National Court Register (KRS). Differences between the fair value of the payments received and nominal value of the shares are included in the reserve capital as a share premium. Reserve capital comprises excess of the value of the issuance and nominal value of the shares.

Costs of share issuance incurred on joint stock company incorporation or on increase in the issued capital reduce the company's reserve capital to the amount of share premium.

Included in retained earnings are prior year profits transferred to reserve capital in accordance with binding regulations of the Polish Code of Commercial Companies.

4.13 Trade and other payables

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

stated at the average NBP rate prevailing for the given currency at year-end.

Financial liabilities are measured at amortized cost in accordance with IAS 39.

Retentions for construction contracts (developer business) comprise invoiced and un-invoiced amounts.

Financial liabilities comprise loans and borrowings and debt securities. Loans and borrowings in foreign currencies are

4.14 Deferred income tax

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

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 recognised, if utilization of tax losses in the following years is probable.

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 considering all prior year tax adjustments.

The carrying amount of deferred tax assets 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.

Deferred tax is recognised 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 taxable base. Deferred tax assets and deferred tax

Unrecognised item of deferred tax assets is re-assessed at each reporting date and is recognised to the extent that it is probable that taxable profit will be available against which the unrecognised item can be utilised.

4.15 Employee benefits

Defined contribution plan

Defined contribution plan is a plan under which the companies of the Group make contributions to a separate business entity of specified amount towards employee benefits. 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 benefits they are eligible to. The amount of the contribution made is recognised as employee related costs in the month in which they were calculated.

The companies belonging to the Group are required – based on binding regulations - to collect and transfer to the Social Security Office (ZUS) contributions towards retirement, disability and health benefits of their employees. The underlying liability is determined based on the total amount of outstanding ZUS contributions. The defined contribution plan is operated by external companies.

4.16 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event such that an outflow of resources embodying economic benefits is certain or highly probable to be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

4.17 Revenues

Revenues comprise lease revenues, revenue from developer business and revenue from other business. Sales revenues are stated at the fair value of the consideration received or receivable in respect of goods for resale or services sold in a regular course of business. Revenues are stated net of Value Added Tax returns, rebates and discounts PHN recognises revenues where the amount of revenues can be reliably measured and where it is certain that in the future economic benefits will flow to the Group, and if all criteria specific to each type of business are fulfilled.

Sales revenues comprise revenues from sale of property, lease or rental revenues and revenues from rendering lease-related or advisory services.

Other revenues comprise mainly revenues from sale of books and revenues from the wholesale of groceries.

Revenues from the sale of property and revenue from developer business are recognised when the control over the property is transferred to the buyer and when the significant risks and

Defined benefit plan

Defined benefit plan is a plan which is not a defined contribution plan under defined benefit plan. The parameters of employee benefits to be received by an employee in the future (e.g. on retirement) are estimated in advance (e.g. benefit amount or date of payment).

The Group is required to pay to its retiring employees a retirement benefit in the amount stated in the Polish Labour Code. The Group recognises in the consolidated statement of financial positions the present value of its liability under the above obligation as short- or long-term employee benefits liability. The present value of this liability is calculated at the reporting date using the actuarial projected unit credit method. The present value of the liability is determined by discounting the estimated future cash flows. Any change in the value of this liability is recognised in profit or loss under Payroll and other employee benefits. Discount is reported under finance costs.

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

rewards of ownership of the property pass to the buyer. The Group believes that this takes place at the time of sign of the notarial deed.

Revenues from the lease of private accommodation and commercial space are recognised on a straight line basis over the term of the agreements. In case of rent free periods, these amounts are released systematically over the term of the lease.

Other revenues from sale of lease and advisory services are recognised in the period in which the services are rendered.

4.18 Expenses

Cost of goods for resale and finished goods sold is determined at the level of development/ production costs using the method of identification of actual cost of assets sold or using the percentage method e.g. percentage of sold land or shares etc.

In particular, the cost of premises and land sold is determined in proportion to their share in the whole land allocated to the given project.

4.19 Dividend

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

4.20 Finance Costs

Finance costs relating to the current period are recognized in the financial result except for the costs that are capitalised in accordance with IAS 23. The Group capitalises this 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 of capitalization. All other borrowing costs are recognised in the consolidated statement of comprehensive income for the period in which they were incurred.

4.21 Government grants

Government grants (monetary and non-monetary reported at fair value) are recognised in the financial statements if, and only if, there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. The Group applies the income-based approach (grants are recognized, as

income in individual periods in order to ensure that they match the respective costs). Where the grant relates to income, it is recognized, as income in the financial result and as deferred income in the Statement of Financial Position.

4.22 Venture combinations

The Group accounts for ventures combinations using the purchase method. Payment made for the acquisition of a subsidiary company represents the fair value of transferred assets, liabilities incurred towards former owners of the company being acquired and equity shares offered by the Group. The consideration paid covers the fair value of an asset or liability item arising from the contingent payment agreement. The identifiable acquired assets and liabilities and contingent

liabilities incurred under ventures combination are initially stated at fair value at the date of acquisition. In individual cases, the Group recognises all non-controlling interests in the acquiree either at fair value or at the proportionate share of the non-controlling interest in the identifiable net assets of the acquire. It has been the policy of the Group that the transactions under common control are accounted for using the pooling of interests method.

5 Financial risk management

5.1 Financial risk factors

Business operations conducted by the Group exposes it to various types of financial risk such as market risk (including the risk of fluctuations in exchange rates, fair values or cash flows arising from fluctuations in interest rates, or price risk), credit risk and liquidity risk.

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

5.1.1 Market risk

✓ **Foreign currency risk** - Foreign currency exposure arises when future trading transactions by an operating unit or recognised assets and liabilities are expressed in currencies other than its functional currency. At the reporting dates presented, the companies of the Group reported foreign currency lease agreements that were expressed mainly in EUR and USD. The Group regularly monitors foreign currency risk and takes appropriate steps to mitigate the unfavourable effect of fluctuations in interest rates. These comprise, among others, forecasting future cash flows expressed in foreign currencies in the period of the next 12 months.

✓ **Price risk** - The Group is not exposed to the risk of changes in the value of financial assets due to insignificant investments in assets exposed to price changes. The price risk is therefore not significant. The Group does not participate in trading in securities in any active market.

✓ **Interest rate risk** - The interest rate risk the Group is exposed to results from changes in market interest rates. PHN does not hedge against fluctuations in interest rates. The Management Board monitors fluctuations in interest rates on an ongoing basis and takes steps appropriate to interest rate risk circumstances.

5.1.2 Credit risk

Credit risk arises in respect of cash and cash equivalents, bonds and participation units, deposits in banks and financial institutions, as well as with respect to clients and lessees of the Group and takes the form of unsettled receivables (insolvency risk). The Group has appropriate procedures to assess credit capacity of its customers and lessees. In the case of lessees, security/ collateral is required in the form of deposits (retentions) and guarantees. No significant risk concentration was recorded for none of the Group's customers. In the case of financial institutions and banks, the Group uses services of entities with good financial standing.

In case of PHN Capital Group, exposure to credit risk arises from default of the counter party to discharge its contractual obligation.

As part of its credit risk management policy, the Group mainly analyzes the credit standing of its business partners and financial institutions whose services are used and develops optimal risk-related contractual clauses. In addition, models of potential financial hedges are developed and individual terms of payment are determined required depending on the credit standing of business partners. In addition, a comprehensive system of debt recovery has been implemented and is operational.

5.1.3 Liquidity risk

Liquidity risk is the risk of the Group's inability to discharge its liabilities on time. The Group manages the liquidity risk by maintaining appropriate amount of shareholders' equity, using offers of bank services and reserve credit facilities and by monitoring on an ongoing basis the forecasted and actual cash flows. Due to the dynamic nature of its business activities, the Group maintains flexibility of financing by securing availability of cash and various sources of finance.

The Group has sufficient cash balances to discharge all its liabilities on time. Mitigating liquidity risk in the long-term is possible owing to the availability of bank loans and borrowings.

Conservative liquidity risk management assumes, among others, holding appropriate cash amounts and maintaining appropriate structure of short-term assets and liabilities. As at 31 December 2013 the Group did not report any loans and borrowings. The Group did not use overdraft facility as it was

able to finance its operations with own capital. Therefore, the liquidity risk may be assessed as insignificant.

The Group monitors its liquidity levels on an ongoing basis. General liquidity ratio (Liquidity I) is calculated as proportion of current assets to current liabilities. At the below reporting dates, Liquidity I was as follows:

	31 December 2013	31 December 2012
General liquidity ratio	1.8	3.5

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

	31 December 2013	31 December 2012
Cash liquidity ratio	0.9	2.1

5.2 Capital risk management

The primary objective of the Group's capital management is to ensure that it continues as a going concern, realises a return to the shareholders and other stakeholders and maintains optimal capital structure to reduce capital cost.

In managing its capital risk, the Group takes decisions concerning its financial leverage level, a policy concerning dividends, the issue of new shares or the re-acquisition and further redemption or resale of earlier issued shares, or the potential disposal of assets in order to reduce debt balances. As other entities in the same industry. The Group monitors capital risk by monitoring, among others, debt ratios. The debt ratio is calculated as the ratio of net debt to total capital value. The net debt is calculated as the sum total of loans and borrowings (comprising short- and long-term loans and borrowings reported in the consolidated statement of financial position) less cash and

cash equivalents. The total value of capital is calculated as shareholders' equity reported in the Consolidated Statement of Financial Position together with net debt.

Financial ratio as at 31 December 2013 and as at 31 December 2012 were as follows:

	31 December 2013	31 December 2012
short and long term debt	1.5	2.0
cash and cash equivalents	(217.8)	(173.9)
Net debt	(216.3)	(171.9)
Shareholders' equity	1 992.7	1 885.7
Total value of capital	1 776.4	1 713.8
Structure of financing ratio (%)	(12.2%)	(10.0%)

5.3 Significant estimates and assumptions

The Group makes estimates and assumptions concerning the future. The accounting estimates will - by nature - rarely match the actual results. Significant estimates and assumptions that may result in the necessity to implement a material adjustment to the carrying amount of assets and liabilities in the next financial year are described below:

Investment property fair value estimation

The best criterion for fair value measurement is comparison of prices of similar assets prevailing on an active market. Where such information is not available, the fair market value of a given item is selected from a range of reasonable fair value estimates. In making such estimates, the Management Board takes into account the following information and data:

- current prices on an active market for investment of a similar nature, status and location (or for property being subject to another contract or agreement), adjusted to reflect differences between the investment properties under consideration;
- recent prices of similar investment property prevailing on less active markets, adjusted to reflect changes in economic conditions, taking place subsequent to the time of the transaction made at a given price;
- discounted forecasted cash flows based on reliable estimates of future cash flows, originating from the terms and conditions of current lease or other contracts or, where possible, from external sources of information such as current rental charges for similar properties in a similar location and condition, using the discount rates that reflect current assessments of market uncertainty as regards the amount or time of cash flow occurrence.

Part of the property belonging to the Group has unclear legal status, which is periodically revised. Based on the analysis concerning the legal status of the property, the Group assesses the probability of loss. Indicators of termination of uncertainty to the legal status of the property (the probability of loss) Group considers as a condition of recognition as an asset.

Inventories

In estimating the amount of impairment write-downs against inventories related to developer business and held as at the reporting date, information is analyzed from an active market and relating to expected selling prices and current market trends, as well as information resulting from concluded preliminary sale agreements. The assumptions made in calculating the write-down relate mainly do market prices of property in the given market segment. For land recognised under inventories, the amount of write-downs result from the assessed usability of the given plot of land to the current and future business needs by the Management Board.

Deferred tax

The Management Board is required to assess the probability of utilisation of deferred tax assets. As part of the process of financial statements preparation, the value of deferred tax assets and deferred tax liability is estimated based, among others, on the value of tax expense in the future. This process covers the analysis of current tax expense and of temporary differences arising from different treatment of a given transaction for tax and accounting purposes which causes origination of deferred tax assets and deferred tax liability.

To this end numerous assumptions are made that concern determination and recognition of deferred tax assets. The accounting estimates referred to above comprise tax forecasts, historical values of tax expense, currently available strategies concerning planning of operating business and the dates of realization of individual temporary difference. Due to the fact that the above estimates may change as a result of changes in external factors, the Group may periodically adjust the value of

deferred tax assets, which in turn may have effect on the financial position of the Group and its results.

Deferred tax assets in respect of tax losses at individual companies of the Group are recognised if, and only if, the analysis by the Management Board proves the possibility of assets utilization.

6 Seasonality of operations

The Group's activity is not characterized by seasonality, therefore, the financial results presented by the Group do not fluctuate significantly during the year.

7 Operating segments information

For management purposes, the Group was divided into segments depending on goods produced and services rendered. The existing reporting segments are as follows:

- ✓ lease of office, retail, warehouse and logistic space, residential and other properties,
- ✓ developer business - construction and sale of residential premises,
- ✓ fishing activity (discontinued operations) - conducted by DKP Dalmor S.A. (at present in liquidation).

The activities executed as part of the operating segments listed above are performed in Poland, except for the discontinued fishing operations which was carried out abroad. Other business relates to other revenues and expenses, including revenues and

expenses from operating activities, which at the date of these consolidated financial statements are no longer carried out by the Group, among others, hotel business, port and cooling business.

The Management Board monitors the results of operating activity on the level of its operating units for results evaluation purposes and the decision making process concerning resource allocation. The Group analyses segment's results up to profit/(loss) on operating activities. The Group does not allocate assets, liabilities, revenues, costs to the segments of the parent entity acting as a financial holding.

Segment analysis for the year ended 31 December 2013 and as at 31 December 2013

	Lease	Developer business	Discontinued operations	Other business	Unallocated	TOTAL
Sales revenues	131.2	39.5		0.6		171.3
Operating expenses	(59.1)	(29.8)		(0.7)		(89.6)
Gross result on sales	72.1	9.7		(0.1)		81.7
Administrative expenses	(33.0)	(4.5)	(0.2)		(8.7)	(46.4)
Change in the fair value of investment properties	(32.2)					(32.2)
Profit on sale of investment property	1.2					1.2
Other revenues	19.1	1.2			0.2	20.5
Other costs	(30.6)	(1.4)			(0.0)	(32.0)
Profit/(loss) on operating activities	(3.4)	5.0	(0.2)	(0.1)	(8.5)	(7.2)
Finance income					7.4	7.4
Finance costs					(1.2)	(1.2)
Interest in results of associates and joint-ventures					0.6	0.6
Income tax expense					107.4	107.4
Net profit/(loss) for the period	(3.4)	5.0	(0.2)	(0.1)	105.7	107.0
Segment assets	2 399.1	81.0	0.1	4.2	2.5	2 486.9
Segment liabilities	455.1	36.9	0.6	0.5	1.1	494.2
Capital expenditure	34.8					34.8
Depreciation/amortization	1.7	0.3				2.0

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In other revenues, the Group recognized mainly: in the lease segment: transfer of part of the property Grójecka 22/24 in the amount of PLN 13.1 m, reversal of receivables impairment write-down in the amount of PLN 2.0 m, the reversal of provisions in the amount of PLN 1.7 m, the reversal of impairment write-downs of properties in tangible fixed assets in the amount of PLN 0.7 m, gain on disposal of fixed assets in the amount of PLN 0.4 m; in the developer business segment, the Group recognized: a reversal of receivables impairment write-down in the amount of PLN 0.7 m, the reversal of provisions in the amount of PLN 0.3 m. other costs, the Group recognized: in the

lease segment: provision for claims in respect of lost benefits from the leased properties in the amount of PLN 7.4 m, receivables impairment write-down in the amount of PLN 6.8 m, the tenant claims related to prior years in the amount of PLN 6.4 m, severance for laid-off workers in the amount of PLN 6.6 m, write-downs of real estate in tangible fixed assets in the amount of PLN 1.0 m, non-contractual use of the property in the amount of PLN 0.8 m, compensation in the amount of PLN 0.5 m.

Segment analysis for the year ended 31 December 2012 and as at 31 December 2012

	Lease	Developer business	Discontinued operations	Other business	Unallocated	TOTAL
Sales revenues	140.0	43.3	2.9	4.4		190.6
Operating expenses	(70.5)	(44.0)	(3.3)	(7.1)		(124.9)
Gross result on sales	69.5	(0.7)	(0.4)	(2.7)		65.7
Administrative expenses	(32.4)	(7.9)	(0.4)	(1.6)	(12.7)	(55.0)
Change in the fair value of investment properties	(222.1)					(222.1)
Profit on sale of investment property	0.7					0.7
Other revenues	5.9	0.6	4.1	0.5	0.0	11.1
Other costs	(23.1)	(4.5)	0.0	(2.0)	(0.0)	(29.6)
Profit/(loss) on operating activities	(201.5)	(12.5)	3.3	(5.8)	(12.7)	(229.2)
Finance income					9.3	9.3
Finance costs					(8.0)	(8.0)
Interest in results of associates and joint-ventures					0.1	0.1
Income tax expense					42.0	42.0
Net profit/(loss) for the period	(201.5)	(12.5)	3.3	(5.8)	30.7	(185.8)
Segment assets	2 193.9	95.8	0.5	4.2	3.2	2 297.6
Segment liabilities	365.1	42.3	0.6	0.5	3.4	411.9
Capital expenditure	22.8					22.8
Depreciation/amortization	1.9	0.6			0.1	2.6

In other revenues, the Group recognized mainly: in the lease segment: release of provisions in the amount of PLN 2.9 m, the reversal receivables impairment write-down in the amount of PLN 1.8 m, subsidies to agricultural land in the amount of PLN 0.9 m, gain on disposal of fixed assets in the amount of PLN 0.2 m, in the developer business segment, the Group recognized reversal receivables impairment write-down in the amount of PLN 0.2 m, compensation in the amount of PLN 0.2 m, reversal of provisions in the amount of PLN 0.1 m. The revenues from discontinued operations consists mainly of the result from disposal of the last ship in the amount of PLN 3.9 m. in other costs, the Group recognized: in the lease segment: provision for claims for benefits from the leased real estate in the amount of PLN 9.8 m, severance payments for dismissed employees in the amount of PLN 6.5 m, write-downs of receivables in the amount of PLN 3.9 m, write-offs of real estate in tangible fixed assets in

the amount of PLN 1.4 m, cost of subsidies to agricultural land in the amount of PLN 0.6 m, compensation in the amount of PLN 0.3 m, in the developer business segment the Group recognized impairment losses of tangible fixed assets in the amount of PLN 1.8 m, write-downs of other tangible fixed assets in the amount of PLN 0.6 m, receivables impairment write-down in the amount of PLN 0.6 m, severance payments for dismissed employees in the amount of PLN 0.8 m, in the other business segment were recognized severance for laid-off workers from port and cooling business in the amount of PLN 1.5 m.

8 Investment properties

Under IFRS 13 Group's Management has analyzed the fair value of investment property and as at 31 December 2013 and 31 December 2012, it has been determined based on the 3 level hierarchy of fair value measurement. In determining the fair value of the property, due to their specific features, it was a relatively small amount of current transactions, which would be similar. As a result, comparable current market transactions had

numerous special assumptions, the adoption of which had a significant impact on the determination of fair value. Due to the lack of or limited number of similar transactions, according to the Management Board, it can not be stated that it has been determined based on second level of hierarchy of fair value measurement. Change in fair value of the property determined based on third level of the hierarchy of fair value measurement was recognised through the net profit (loss).

	Year ended	
	31 December 2013	31 December 2012
As at 1 January	1 911.5	2 068.1
Expenditure for investment properties	34.8	22.3
In-kind contribution to related companies	0.0	(17.8)
Change in fair value of investment properties	(32.2)	(222.1)
Cost of investment properties sold	(5.8)	(14.4)
Transfer from property, plant and equipment to investment properties	30.9	107.9
Transfer to property, plant and equipment	(7.0)	(7.4)
Transfer from assets with unclear legal status	13.1	0.0
Transfer to assets of disposal group classified as held for sale	(17.4)	(25.1)
As at the period end	1 927.9	1 911.5

The following amounts were recognised in the consolidated statement of comprehensive income:

	Year ended	
	31 December 2013	31 December 2012
Lease revenues regarding investment properties	131.2	140.0
Direct operating costs resulting from investment properties, generating lease revenues	(59.1)	(70.5)
Change in fair value of investment properties	(32.2)	(222.1)
Gain/(loss) on disposal of investment properties	1.2	0.7
<i>Revenue from disposal of investment properties</i>	32.1	15.1
<i>Cost of investment property sold</i>		
<i>(classified as investment property or assets held for sale)</i>	(30.9)	(14.4)
Gain/(loss) on investment properties	41.1	(151.9)

As at 31 December 2012, the property located on Grójecka 22/24 Street had unclear legal status and the Group did not recognize it in the statement of financial position, which was justified by legal analyzes carried out on the basis of the documents proving the uncertainty as to the legal status. In current financial year, the Group Management Board obtained information about the lack of uncertainty as to the legal status of part of the property. Due to this fact, the value of part of the property has been recognized in the consolidated statement of financial position at fair value equal to PLN 13.1 m. The remaining part of the property, that legal status is unclear with negative perspective of its regulation, had not been presented in the consolidated statement of financial position. The effects of the legal status reclassification have been recognized under "Other income" in the statement of comprehensive income.

Capital expenditures on investment properties in the year ended 31 December 2013 comprise mainly:

- ✓ expenditures incurred on developer commercial projects (mainly: Domaniewska 37C, Foksal 10A, Rakowiecka) in the amount of PLN 27.8 m; 2012: PLN 8.4 m,
- ✓ modernization and expansion of properties in the amount of PLN 7.0 m, 2012: PLN 13.9 m.

Transfer to assets of disposal group classified as held for sale, according to IFRS 5, was made due to obtaining buyer of Łągów, Willowa and Zakopane properties.

In 2013, the Group disposed of properties located on Lektykarska, Farbiarska and Humańska streets in Warsaw.

Some items of investment property held by the Company have unclear legal status. This unclear legal status (negative perspective of its regulation) of the property results from the claims filed with respect to some parts of the property. In opinion of the Management Board the majority of claims are not reasonable. In the attached consolidated financial statements

such properties are not recognized. The fair value of the said property, assuming clear legal status, at individual reporting dates is presented below:

	Year ended	
	31 December 2013	31 December 2012
Investment properties	162.5	204.1

Estimation of investment property fair value

The best criterion for fair value measurement is the comparison of prices of similar assets prevailing on an active market. Where such information is not available, the fair market value of a given item is selected from a range of reasonable fair value estimates. In making such estimates, the Management Board takes into account the following information and data:

- ✓ current prices on an active market for investment property of a similar nature, status and location (or for property being subject to another contract or agreement), adjusted in such way as to reflect differences between the investment properties under consideration;
- ✓ recent prices of similar investment property prevailing on less active markets, adjusted to reflect changes in economic conditions, taking place subsequent to the time of the transaction made at a given price;
- ✓ discounted forecasted cash flows based on reliable estimates of future cash flows, originating from the terms and conditions of current lease or other contracts or, where possible, from external sources of information such as current rental charges for similar properties in the same location and condition, using the discount rates which reflect current assessments

9 Property, plant and equipment

Change in the value of property, plant and equipment is mainly related to:

- ✓ depreciation of property, plant and equipment in 2013 amounting to PLN 1.8 m, in 2012: PLN 2.4 m,
- ✓ an impairment write-down of PLN 0.4 m recognized in 2013, in 2012: PLN 3.8 m, based on property, plant and equipment impairment analysis, the impairment write-downs were recognized in "Other costs" in the statement of comprehensive income,
- ✓ acquisition of property, plant and equipment in 2013 in the amount of PLN 0.2 m; in 2012 in the amount of PLN 2.5 m PLN (thereof leased car fleet PLN 2.0 m); disposals in 2013 PLN 0.3 m; in 2012 PLN 0.1 m,

of market uncertainty as regards the amount or time of cash flow occurrence.

Investment property was recorded at fair value determined by independent property valuers.

Presented below are the assumptions made at property valuation:

Basic assumptions made at property	31 December 2013	31 December 2012
Capitalization rate (%)	5.25 - 12.0	5.75 - 9.25
Vacancy ratio (%)	0 - 15.0	4.0 - 12.0
ERV for office and residential areas	40 PLN-80 PLN	40 PLN -80 PLN

The Group entered into a number of operating lease agreements with tenants on owned investment property. A significant part of the contract has been concluded for an indefinite period with a short period of notice. The Group is in the process of changing the strategy in connection with the period for which the lease agreements are concluded. In addition, the Group is in the process of divestment of these properties that do not fit to the target portfolio. Some of them are currently leased and future income from lease agreements depends on the period in which the Group will be able to sell them. Due to the changes in the structure of the Group and the adoption of the definite lease period model, determining the aggregate value of future income from irreversible lease agreements require the adoption by the Group significant estimates for the period of disposal of property and changes in contracts from an indefinite period contracts for a specified period. Consequently, irrevocable leases revenues amount to approximately PLN 0.2 billion as at 31 December 2013, including: till year about PLN 26.0 m, from one to five years approximately PLN 150.0 m, over five years, about PLN 11.0 m (PLN 0.2 billion as at 31 December 2012, including: till year PLN 28.0 m, from one to five years PLN 145.0 m, over five years PLN 22.0 m).

- ✓ transfer from property, plant and equipment to investment property. Due to limiting utilization of office area for the Group own purposes and as a result of employment restructuring process, property, plant and equipment in the amount of PLN 23.9 m was transferred to investment properties. In 2012, subject to the leased out hotels and release of the technical surfaces being a consequence of employment restructuring, property, plant and equipment in the amount of PLN 105.2 m has been reclassified to investment property.

The carrying amount of property, plant and equipment as at 31 December 2013 amounted to PLN 21.0 PLN, as at 31 December 2012: PLN 46.6 m.

10 Intangible assets

In the year ended 31 December 2013, the Group incurred expenditures on purchase of intangible assets in the amount of

PLN 0.1 m. A depreciation of intangible assets for the year ended 31 December 2013 amounted to PLN 0.2 m.

11 Investments in associates and joint ventures

Warszawski Holding Nieruchomości S.A. and SEGRO B.V. hold 50% of shares each in Wrocław Industrial Park Sp. z o.o. The Group accounts for its shares using the equity method.

	Year ended	
	31 December 2013	31 December 2012
As at 1 January	17.9	0.0
Acquisitions	0.0	17.8
Interest in results	0.6	0.1
Balance at the end of the period	18.5	17.9

The Company Wrocław Industrial Park is not quoted on an active market. Its selected financial data for the year ended 31 December 2013 and as at 31 December 2013 are as follows:

	Assets	Equity	Liabilities	Revenue	Net profit / (loss)	Share in Group profit
Wrocław Industrial Park	38.2	37.7	0.5	1.5	1.1	0.6

12 Inventories related to developer business

Inventory structure

	31 December 2013	31 December 2012
Land	10.3	11.2
Work in progress	22.7	40.2
Finished goods	32.4	32.9
Total inventories related to developer business	65.4	84.3

Change in the value of inventories during the year

	31 December 2013	31 December 2012
Balance at the beginning of period	84.3	80.8
Capital expenditure	10.2	31.7
Disposals	(28.8)	(26.6)
Impairment write-down	(0.3)	(1.6)
Balance at the end of period	65.4	84.3

Land comprises all land associated with residential developer business.

13 Financial assets and financial liabilities by class

	31 December 2013	31 December 2012
Loans and receivables	231.7	187.2
Trade receivables and other assets except for prepayments and public receivables	13.9	13.3
Cash and cash equivalents	217.8	173.9
Assets valued at fair value through profit or loss	0.0	4.7
Financial assets at fair value through profit or loss	0.0	4.7
Assets held for sale	0.0	0.0
Total financial assets by class	231.7	191.9

In trade receivables and other assets are presented trade receivables and other assets as of statement of financial position excluding:

- ✓ prepayments: as at 31 December 2013: PLN 4.6 m, as at 31 December 2012: PLN 3.2 m,
- ✓ public receivables: as at 31 December 2013 PLN 163.7 m, as at 31 December 2012 PLN 10.4 m, the main public receivables are tax receivables from property sales to the subsidiaries as at 31 December 2013: PLN 161.4 m, 31 December 2012: PLN 6.4 m.

Financial assets valued at fair value through profit or loss as at balance sheet date 31 December 2012 comprised Treasury Bonds.

As at 31 December 2013 and as at 31 December 2012 fair value of financial assets and carrying amount were similar.

Financial instruments, valued at fair value through profit or loss, are valued as quoted on an active market.

Liabilities at amortised cost

	31 December 2013	31 December 2012
Car fleet leasing	1.5	2.0
Tenants deposits	11.3	12.0
Trade and other payables except for tenants deposits, advances and public liabilities	30.4	23.5
Total finance liabilities by class	43.2	37.5

As at 31 December 2013 and as at 31 December 2012 fair value of financial liabilities and carrying amount were similar.

As at 31 December 2013, the Group presented public payables in the amount of PLN 171.0 m (including PLN 161.4 m tax payables from property sales to the subsidiaries); as at 31

December 2012: PLN 9.6 m (including PLN 6.4 m tax payables from property sales to the subsidiaries). As at 31 December 2013, the Group presented PLN 2.1 m advance payments for the sale of the property, which at the date of the report are classified as held for sale.

14 Trade receivables and other assets

	31 December 2013	31 December 2012
Trade receivables	32.0	25.9
Impairment write-down on receivables	(18.7)	(15.4)
Trade receivables, net of impairment write-down of doubtful debts	13.3	10.5
Other assets	168.9	16.4
Prepayments	4.6	3.2
Public receivables	163.7	10.4
Other	0.6	2.8
Trade receivables and other assets	182.2	26.9

Public receivables, as at 31 December 2013 comprised: PLN 161.4 m value added tax receivables arose on properties sales to the subsidiaries within the Group, as at 31 December 2012 PLN 6.4 m.

Ageing structure of financial assets	31 December 2013	31 December 2012
Receivables not overdue	6.6	3.9
Receivables overdue from 1 to 30 days	2.9	3.4
Receivables overdue from 31 to 60 days	1.7	1.3
Receivables overdue from 61 to 90 days	0.5	0.6
Receivables overdue over 91 days	2.2	4.1
Total trade receivables	13.9	13.3

Currency structure of trade receivables	31 December 2013	31 December 2012
PLN	182.2	26.9

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Change of trade receivables impairment write-downs	31 December 2013	31 December 2012
As at 1 January	15.4	15.4
Write-downs against receivables	7.3	4.5
Reversal of write-downs	(2.7)	(2.0)
Utilisation of write-downs	(1.3)	(2.5)
As at 31 December	18.7	15.4

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

Cash balances structure	31 December 2013	31 December 2012
Cash on hand and cash at bank	3.9	4.4
Short-term bank deposits	213.9	169.5
Balance at the end of period	217.8	173.9

Explanation of selected adjustments of cash flow from operating activities and reconciliation of differences between the balance sheet changes and the changes recognized in cash flow statement:

Change in value of other assets and result on disposal	Year ended	
	31 December 2013	31 December 2012
Impairment of property, plant and equipment (properties)	0.3	3.2
Impairment of other property, plant and equipment	0.1	0.6
Transfer from properties with unclear legal status	(13.1)	0.0
Gain (loss) from disposal of ship - discontinued operation	0.0	(3.9)
Gain from revaluation of financial assets	0.0	(0.4)
Gain (loss) from disposal of other non-current assets	(0.4)	(0.2)
Total	(13.1)	(0.7)

Changes in working capital	Year ended	
	31 December 2013	31 December 2012
Change in provisions	7.4	9.2
Change in inventories	19.1	(0.9)
Change in receivables	(155.5)	(5.8)
Change in liabilities	155.9	(10.0)
Change in other assets	(0.5)	(0.1)
Total	26.4	(7.6)

Explanation of differences between the balance sheet changes and the changes recognized in consolidated cash flow statement:

Receivables	Year ended	
	31 December 2013	31 December 2012
Balance sheet change in receivables	(155.3)	(5.5)
Change in investment receivables	(0.2)	(0.3)
Change in receivables in the cash flow statement	(155.5)	(5.8)

Liabilities	Year ended	
	31 December 2013	31 December 2012
Balance sheet change in liabilities	157.5	(23.0)
Change in investment liabilities	(1.6)	13.0
Change in liabilities in the cash flow statement	155.9	(10.0)

Inventories	Year ended	
	31 December 2013	31 December 2012
Balance sheet change in inventories	19.1	(2.0)
Change in inventories classified as assets of disposal group classified as held for sale	0.0	1.1
Change in inventories in the cash flow statement	19.1	(0.9)

16 Issued capital

On 16 September 2013, the Management Board of Warsaw Stock Exchange adopted a resolution no. 1099/2013, regarding admission and introduction on 18 September 2013, by way of an ordinary procedure, to exchange trading on the main market of Stock Exchange 1,107,223 C series bearer ordinary shares („C series shares”) of the Company at par value PLN 1 each.

On 18 September 2013, according to a Resolution no. 679/13 dated 5 September 2013 there was a registration of 1,107,223 C series bearer ordinary shares („C series shares”), bearing code ISIN PLPHN0000014, in Central Securities Depository of Poland.

On 4 December 2013, the Management Board of Warsaw Stock Exchange adopted a resolution no. 1398/2013, regarding admission and introduction on 6 December 2013, by way of an ordinary procedure, to exchange trading on the main market of Stock Exchange 108,721 C series bearer ordinary shares („C series shares”) of the Company at par value PLN 1 each.

On 5 December 2013, according to a Resolution no. 679/13 dated 5 September 2013 there was a registration of 108,721 C series bearer ordinary shares („C series shares”), bearing code ISIN PLPHN0000014, in Central Securities Depository of Poland.

Mentioned above shares were issued based on:

- ✓ Company's Shareholders Meeting Resolution no. 3 dated 11 October 2011 regarding conditional increase of the issued capital by the amount of PLN 3,884,000 through issue of 3,884,000 C series bearer ordinary shares ("C series shares") at par value PLN 1 each, and
- ✓ Company's Shareholders Meeting Resolution no. 3 dated 16 April 2012 regarding conditional increase of the issued capital by the amount of PLN 469,000 through issue of 469,000 C series bearer ordinary shares at par value PLN 1 each.

C series shares are acquired as a result of exercising the rights under the subscription warrants of A and B series shares offered free of charge to employees of Warszawski Holding Nieruchomości S.A., Intraco S.A., Budexpo Sp. z o.o. and Dalmor S.A, which according to the provisions of article 36 and subsequent of Commercialization and Privatization Act dated 31 August 1996, had the right to acquire the shares of the company.

17 Reserve capital and retained earnings

In 2013, the Company acquired subsidiaries' shares in exchange for the issue of own shares (for details see note 16). Its acquisition price has been set at the level of PHN S.A. own shares issue cost, derived from quotations of PHN S.A. shares in particular days when subsidiaries shares acquisition took place. The excess of purchase price over the par value equal to PLN 1 per share was recorded as reserve capital. As a result of the issue of own shares, the Group recorded PLN 31.4 m as a reserve capital.

Retained earnings presented as at 31 December 2012 in the amount of PLN -573.7 m changed to the level of PLN 117.4 m as at 31 December 2013, as a result of:

- ✓ generating net profit in 2013 by the Group amounting to PLN 100.0 m,
- ✓ recognition of excess of book value of non-controlling interest over value of PHN S.A. issued shares, in amount of PLN 18.6 m,
- ✓ coverage of the parent's loss for the year 2012 and accumulated losses from previous years reported in standalone financial statements, amounting to PLN 572.5 m total, from reserve capital recognized in respect of share premium (agio).

18 Deferred tax assets and deferred tax liabilities

Deferred tax liabilities:

	Investment properties	Property, plant and equipment	Inventories	Other assets	Provisions	Tax losses	Other liabilities	Total
1 January 2012	305.1	25.4		0.8				331.3
increase/ decrease	(28.7)	(16.5)		(0.4)				(45.6)
31 December 2012	276.4	8.9		0.4				285.7
increase/ decrease	(103.5)	(5.4)		0.4				(108.5)
31 December 2013	172.9	3.5		0.8				177.2

Deferred tax assets:

	Investment properties	Property, plant and equipment	Inventories	Other assets	Provisions	Tax losses	Other liabilities	Total
1 January 2012		1.0	0.7	2.0	15.3	4.6	1.3	24.9
increase/ decrease		(0.8)	3.4	0.5	(0.6)	(0.9)	(0.6)	1.0
31 December 2012	-	0.2	4.1	2.5	14.7	3.7	0.7	25.9
increase/ decrease	2.1	(0.1)	(0.2)	1.1	1.9	0.5	0.8	6.1
31 December 2013	2.1	0.1	3.9	3.6	16.6	4.2	1.5	32.0

Decrease of deferred tax liabilities in relation to investment properties in the amount of PLN 103.5 m is mainly the effect of

changes in the structure of the Capital Group in the amount of PLN 106.7m. (for details see note 25).

19 Liabilities under employee benefits

	Year ended	
	31 December 2013	31 December 2012
Liabilities recognised in the consolidated statement of financial position:		
– Jubilee bonuses and retirement benefits	0.9	2.7
Liabilities under employee benefits	0.9	2.7
Costs recognised in the net profit (loss) for the period:		
– Jubilee bonuses and retirement benefits	(0.2)	(0.8)
Cost of employee benefits	(0.2)	(0.8)

Jubilee bonuses and retirement benefits

	Year ended	
	31 December 2013	31 December 2012
Amounts recognised in the consolidated statement of financial position were determined as follows		
Present value of liabilities – opening balance	2.7	4.9
Interest costs	0.1	0.3
Current service costs	0.1	0.4
Benefits paid	(0.3)	(1.4)
Actuarial gains/ (losses)	0.0	(1.2)
Program scope restrictions	(1.7)	(0.3)
Present value of liabilities – closing balance	0.9	2.7
Of which:		
Carrying amount of long-term liabilities	0.8	2.4
Carrying amount of short-term liabilities	0.1	0.3
Total costs of employee future benefits recognised in the Statement of Comprehensive Income	(0.2)	(0.8)
Main actuarial assumptions:		
Discount rate (%)	4.5%	4.5%
Expected inflation rate (%)	2.5%	2.5%
Expected remuneration increase (%)	3.5%	3.5%

20 Provisions

	Claims in respect of lost benefits from leased property	Warranty repairs and provision for compensations	Provision for non-contractual use	Employment restructuring	Employee benefits	Other provisions	Total
As at 1 January 2012	36.3	9.5	0.0	17.0	4.9	12.0	79.7
Recognition	15.7	15.2	0.0	2.7	0.6	1.6	35.8
Utilisation	0.0	(0.6)	0.0	(17.0)	(1.1)	(1.3)	(20.0)
Reversal	0.0	0.0	0.0	0.0	(1.7)	(4.9)	(6.6)
As at 31 December 2012	52.0	24.1	0.0	2.7	2.7	7.4	88.9
Recognition	6.9	1.0	1.9	2.5	0.0	1.6	13.9
Utilisation	0.0	0.0	0.0	(2.5)	(0.3)	(0.4)	(3.2)
Transfer	(2.0)	0.0	2.0	0.0	0.0	0.0	0.0
Reversal	0.0	(1.3)	0.0	(0.2)	(1.5)	(0.3)	(3.3)
As at 31 December 2013	56.9	23.8	3.9	2.5	0.9	8.3	96.3

The Group creates provision in respect of claims for lost benefits from leased property with unclear legal status. Claims for lost benefits may be filed by a holder of a legally valid title to property on the date of obtaining such title at earliest, however not later than within 1 year from that date. Such claims are valid from the time the Group inquires about filed claims (from this time on, the Group becomes a holder of property in bad faith). The period of prescription for the right to claim lost benefits against a holder in bad faith is 10 years. Entitlement to claims in respect of lost benefits from leased property expires after 10 years. The 10-year period is shortened at the moment the Group learns that claims have been filed.

Other provisions comprise a provision in the amount of PLN 4.9 m for potential claim from the State Treasury in connection with the risk associated with the occurrence of irregularities in the valuation of real estate or assumptions used for the purposes of valuation of the properties, having a direct impact on the net assets of valued companies, which subsequently merged into Warszawski Holding Nieruchomości S.A.. Net assets of the merged companies were the basis for determination of the number of shares to eligible employees. Therefore the

inappropriate determination of the net assets of these companies can result in a potential claim from the State Treasury against Warszawski Holding Nieruchomości, considered as the legal successor of companies that were responsible for the preparation of the valuation of the merged entities.

Additionally other provisions comprise provisions for claims of a number of tenants.

As the Group owns properties with unclear legal status and the risk that current owner may submit a notice to pay for non-contractual use of them, the Group has created the following provisions:

- ✓ PLN 1.0 m – for properties with a positive perspective of regulation of legal status,
- ✓ PLN 0.9 m- for properties with negative perspective of regulation of legal status.

Additionally, the Group extracted PLN 2.0 m from provision for claims in respect of lost benefits from leased properties to a provision for non-contractual use of properties.

21 Revenues from operating activities

Analysis of revenues, by category	Year ended	
	31 December 2013	31 December 2012
Lease revenues	131.2	140.0
Revenue from developer business	39.5	43.3
Revenue from other activities:	0.6	4.4
Hotel business	0.4	0.8
Property management	0.1	0.6
Sales of books	0.0	0.2
Logistics services (port and cooling operations)	0.0	2.0
Other	0.1	0.8
Total operating revenues	171.3	187.7

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	Year ended	
	31 December 2013	31 December 2012
Other revenues		
Gain on disposal of non-financial non-current assets	0.4	0.2
Impairment of property, plant and equipment (property)	0.7	0.0
Transfer from properties with unclear legal status	13.1	0.0
Subsidy to agricultural land	0.0	0.9
Compensations	0.4	0.5
Revaluation of receivables	2.7	2.0
Reversal of provisions	2.0	3.0
Other	1.2	0.4
Total other revenues	20.5	7.0

Transfer of assets with unclear legal status was described in note 8.

22 Costs of operating activities

	Year ended	
	31 December 2013	31 December 2012
Costs of core business activities		
Cost of property maintenance	59.1	70.5
Cost of developer business	29.8	44.0
Cost of other activities	0.7	7.1
Hotel business	0.6	1.3
Property management	0.0	0.7
Sales of books	0.0	0.3
Logistics services (port and cooling operations)	0.0	4.8
Other	0.1	0.0
Total costs of operating activities	89.6	121.6

In the nine-month period of 2013, the Group created an impairment write-down on land presented as inventories related to developer business in amount of PLN 1.5 m which was recognized as "cost of developer business" in statement of comprehensive income. In the 4th quarter of 2013, the Group assessed that impairment indicators on land presented under inventories related to developer business are no longer valid and reversed impairment in the amount of PLN 1.6 recording it under cost of developer business. In 2012 the Group has

estimated a provision for warranty repairs which was recognized in statement of comprehensive income as costs of developer business. The Group increased also the provision for compensation for the untimely transferred residential units which was presented as cost of developer business in the statement of comprehensive income. As a result, total amount of costs recognized in respect of abovementioned items by the Group in statement of comprehensive income amounted to PLN 14.6 m.

	Year ended	
	31 December 2013	31 December 2012
Other costs		
Impairment of property, plant and equipment (properties)	1.0	3.2
Impairment of other property, plant and equipment	0.1	0.6
Impairment write-down of inventories	0.2	0.2
Trade receivables impairment write-down	7.3	4.5
Provision for claims in respect of lost benefits from leased property	7.4	9.8
Non-contractual use of properties	0.8	0.0
Tenant claims related to prior years	6.4	0.0
Compensations and penalties	0.9	0.3
Employment restructuring costs	6.9	8.8
Costs of grants to agricultural land	0.0	0.6
Other	1.0	1.6
Total other costs	32.0	29.6

Employment restructuring costs in the amount of PLN 6.9 m relate to payroll and other employee benefits connected with the process of group redundancies being a result of optimization of Group's operations. Reversal of provision for retirement benefits and jubilee bonuses was recognized in other revenues in the

amount of PLN 1.5 m. Market conditions have a negative influence on potential tenants ability to settle their liabilities and as a result in 2013 the Group recorded an impairment of receivables in amount of PLN 7.3 m (in 2012: PLN 4.5m).

23 Costs by type

The Group excluding developer business	Year ended	
	31 December 2013	31 December 2012
Depreciation and amortization	1.7	2.0
Materials and energy	11.1	14.9
External services	31.2	39.9
Taxes and charges	27.0	21.7
Payroll and other employee benefits	29.6	44.6
Other costs by type	0.9	0.9
Cost of goods for resale and raw materials sold	0.0	0.3
Total operating expenses	101.5	124.3
Administrative expenses	(30.3)	(34.2)
Costs of sales	(2.8)	(4.4)
One-off items (IPO and restructuring costs)	(8.6)	(8.1)
Costs of goods sold	59.8	77.6

Developer business	Year ended	
	31 December 2013	31 December 2012
Depreciation and amortization	0.3	0.6
Materials and energy	0.2	1.0
External services	13.2	46.4
Taxes and charges	0.4	0.5
Payroll and other employee benefits	1.7	6.0
Other costs by type	0.0	0.1
Value of goods and materials sold	1.2	1.0
Change in the balance of finished goods	17.3	(3.7)
Total operating expenses	34.3	51.9
Administrative costs	(2.4)	(5.7)
Costs of sales	(2.1)	(2.1)
One-off items (IPO and restructuring costs)	0.0	(0.1)
Cost of goods sold	29.8	44.0

24 Finance income and finance costs

Finance income	Year ended	
	31 December 2013	31 December 2012
Interest income	6.1	8.7
<i>Short-term bank deposits</i>	5.9	8.4
<i>Other interest</i>	0.2	0.3
Discount of provisions in respect of claims for lost benefits from leased property	1.2	
Gain on revaluation of financial assets and liabilities	0.0	0.4
Other finance income	0.1	0.2
Total finance income	7.4	9.3

	Year ended	
	31 December 2013	31 December 2012
Financing costs	0.1	0.2
<i>Finance lease</i>	0.1	0.2
Discount of provisions for claims for lost benefits from leased properties	0.7	6.2
Discount of actuarial provisions	0.1	0.2
Foreign exchange differences	0.0	0.7
Other finance costs	0.3	0.2
Total finance costs	1.2	7.5
Net profit/(loss) from financing activities	6.2	1.8

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25 Reconciliation of effective tax rate

	Year ended	
	31 December 2013	31 December 2012
Current tax expense	(7.2)	(5.1)
Deferred tax	114.6	47.9
Income tax expense	107.4	42.8
	Year ended	
	31 December 2013	31 December 2012
Profit/(loss) before tax	(0.2)	(230.6)
Tax calculated at the rate of 19% binding in Poland	0.0	43.8
Interests in results of associates and joint ventures	0.1	0.0
Non-taxable revenues	0.7	0.0
Non-tax-deductible expenses (permanent differences)	(0.9)	(2.1)
Net result of partnerships	0.9	(1.1)
Tax losses for which no deferred tax asset was recognized or was written off	(0.2)	(2.5)
Recognition of deferred tax assets as a result of the transformation of partnerships to corporations	0.4	0.0
Other costs for which no deferred tax asset was recognised	(0.3)	0.0
In-kind contribution and sales properties to subsidiaries	106.7	4.7
Income tax expense	107.4	42.8

As a result of an in-kind contribution by Intraco S.A. in the form of organized enterprise and real estate by Warszawski Holding Nieruchomości S.A. and Budexpo Sp. z o.o. to the Company Polski Holding Nieruchomości Spółka Akcyjna Spółka komandytowo-akcyjna, conditions outlined in IAS 12 were met. In addition, due to changes in the Capital Group structure the Company Polski Holding Nieruchomości Spółka Akcyjna Spółka komandytowo-akcyjna sold selected properties to special purpose vehicles. Consequently, according to the company,

conditions related to reversal of deferred tax liability in the amount of PLN 107.1m in respect of sold properties by Polski Holding Nieruchomości Spółka akcyjna spółka komandytowo-akcyjna were met, their tax values were increased.

Deferred tax assets and deferred tax liabilities are offset if the Company has a legal right to offset deferred tax assets against deferred tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

26 Discontinued operations

	Year ended	
	31 December 2013	31 December 2012
Sales revenues	0.0	2.9
Operating costs	0.0	(3.3)
Administrative expenses	(0.2)	(0.4)
Other revenues	0.0	4.1
Profit/(loss) from operating activities	(0.2)	3.3
Finance costs	0.0	(0.5)
Profit/ (loss) before tax	(0.2)	2.8
Income tax expense	0.0	(0.8)
Net profit/(loss) from discontinued operations	(0.2)	2.0

27 Net profit/ (loss) attributable to non-controlling interest

In 2013 there was a share repurchase from non-controlling interest of Warszawski Holding Nieruchomości S.A., Intraco S.A. and Budexpo Sp. z o.o. Net profit attributable to non-controlling

interest was determined under the assumption that they participate in the entire net profit for three quarters of 2013 and in the net profit for 4th quarter 2013 according to the amount of shares held in that period.

28 Earnings/ (loss) per share

	Year ended	
	31 December 2013	31 December 2012
Basic and diluted net earnings per share attributable to the shareholders of the parent		
Profit/(loss) attributable to the shareholders of the company (in PLN m)	100.0	(170.8)
Weighted average number of ordinary shares (in m pcs)	43.7	43.4
Basic and diluted net earnings per share (in PLN)	2.29 PLN	(3.94 PLN)

	Year ended	
	31 December 2013	31 December 2012
Basic and diluted net earnings per share from continuing operations attributable to the shareholders of the parent		
Profit/ (loss) from continuing operations attributable to the shareholders of the company (in PLN m)	100.2	(173.1)
Weighted average number of ordinary shares (in m pcs)	43.7	43.4
Basic and diluted net earnings per share (in PLN)	2.29 PLN	(3.99 PLN)

29 Contingent assets and contingent liabilities

In note 8 to Consolidated Financial Statements for the year 2013 a disclosure was made about the Company's properties with unclear legal status. If the result of litigation proceedings concerning these properties is favourable to the Capital Group, the properties will be recognised as assets.

Part of the Group's property portfolio rented for commercial purposes are registered in public register as residential buildings. The Group neither notified public administration about the changes in use of these buildings nor required administrative decisions allowing these changes which may result in penalties

imposed on the Group Companies. As of the balance sheet date, the risk of imposing these penalties was low and its value could not be reliably measured, the Group has not recognized any provision in this respect.

a) Investment liabilities

There are no significant investment contingent liabilities.

b) Operating lease

There are no significant contingent liabilities under operating lease agreements.

30 Transactions with related parties and employees

Transactions with the State Treasury and entities related to the State Treasury

The State Treasury of the Republic of Poland is the entity exercising control over the Group. As a result, transactions between Group entities and the State Treasury or entities related to the State Treasury are subject to disclosure in accordance with the policies described in IAS 24 „Related Party Disclosures”.

The Group did not enter into individually material transactions with entities related to the State Treasury. In the normal course of business, the Group earned rental revenues from entities controlled by the State Treasury.

Given the above, the Group is exempted from the requirement to disclose information on transactions and unsettled balances with entities related to the State Treasury as specified in IAS 24.18.

Based on Polish laws entities of the Group are liable to income tax in Poland. As a result, they pay income tax to the State Treasury, which is a related entity. The policies and principles binding the Group Companies in this area are exactly the same as those that are binding for other non-related entities.

POLSKI HOLDING NIERUCHOMOŚCI SPÓŁKA AKCYJNA

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Revenues from sale of goods and services

	Year ended	
	31 December 2013	31 December 2012
Revenue from the State Treasury	10.0	10.1

Remuneration of key management personnel

	Year ended	
	31 December 2013	31 December 2012
Remuneration of Management Board of the parent	2.2	1.6
Remuneration of Management Boards of subsidiaries	1.7	2.4
Remuneration of Supervisory Board of the parent	0.3	0.3
Remuneration of the Supervisory Board of subsidiaries	0.4	1.3
Total remuneration of key management personnel	4.6	5.6

Transactions with associates and joint ventures

In the year ended 31 December 2013 and 31 December 2012 no transactions with associated and joint ventures companies occurred.

31 Remuneration of certified auditor or entity qualified to audit financial statements

The following table presents the remuneration of the entity qualified to audit financial statements paid or payable for the

year ended 31 December 2013 and the year ended 31 December 2012 by types of services:

	Year ended	
	31 December 2013	31 December 2012
Audit and review of financial statements	0.3	0.7
Other attestation services	0.1	0.7
Total	0.4	1.4

* The data related to Ernst & Young Audit Polska spółka z ograniczoną odpowiedzialnością sp. k. (formerly: Ernst & Young Audit Sp. z o.o.). The agreement related to audit of financial statements for the year ended 31 December 2013 with the entity qualified to audit financial statements was signed on 22 July 2013.

32 Other information

On 12 February 2013 the Management Board of Warsaw Stock Exchange adopted a resolution no. 167/2013, based on which it decided to introduce on 13 February 2013, by way of an ordinary procedure, to exchange on the main market 43.4 m of the following series bearer ordinary shares of the Company at par value PLN 1 each: (i) 0.1 m A series shares; (ii) 39.9 m B series shares (iii) 3.4 m D series shares. The shares of the

Company are listed in the continuous trading system under the abbreviated name „PHN” and the code „PHN”. Within the first public offer, as a result of disposal of shares of the Company, the share of State Treasury shareholding on the Shareholders Meeting decreased from 100% to 75%.

33 Events after balance sheet date

On 12 February 2014 the Management Board of Warsaw Stock Exchange adopted a resolution no. 157/2014, regarding admission and introduction on 14 February 2014, by way of an ordinary procedure, to exchange trading on the main market of Stock Exchange 1,022,234 C series bearer ordinary shares („C series shares”) of the Company at par value PLN 1 each.

On 14 February 2014 according to a Resolution no. 679/13 dated 5 September 2013, there was a registration of 1,022,234 C series bearer ordinary shares („C series shares”), bearing code ISIN PLPHN0000014, in Central Securities Depository of Poland.

Value added tax arose on property sales to subsidiaries in the amount of PLN 161.4 m was fully paid. As of the date of these consolidated financial statements, after completion of controls

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performed by tax authorities in several subsidiaries, PLN 139.8 m of tax was returned.

statements, no events have occurred which should have been disclosed in these consolidated financial statements.

Except for the abovementioned events, after the balance sheet date to the date of authorization of these consolidated financial

These consolidated financial statements were authorised for issue by the Management Board of the Parent Company on 26 February 2014.

Paweł Laskowski - Fabisiewicz
Vice-president of the
Management Board

Artur Lebiecki
President of the Management Board

Włodzimierz Piotr Stasiak
Member of the Management
Board in charge finance

Rafał Krzemień
Member of the Management
Board

Sławomir Mieczysław Frąckowiak
Member of the Management Board

Grzegorz Grotek
Person responsible for preparing consolidated
financial statements

POLSKI HOLDING NIERUCHOMOŚCI S.A.
CAPITAL GROUP
MANAGEMENT BOARD REPORT
FOR THE YEAR ENDED 31 DECEMBER 2013



POLSKI HOLDING
NIERUCHOMOŚCI S.A.

B. The Management Board's Report on the activity of Capital Group

1. General information on Capital Group

The Parent Company of the Polski Holding Nieruchomości S.A. Capital Group ("the Group") is the Company Polski

Holding Nieruchomości S.A. („PHN S.A., 'Parent Company') located in Warsaw, Świętokrzyska 36/ 30/27.

2. Group structure

All the subsidiaries belonging to the Group are consolidated using the full method while shares in joint-ventures are recognized in the consolidated financial statements using the

equity method. The Capital Group comprises entities presented below.

Entity	Parent company	Share in capital and in voting rights as at 31 December 2013	Share in capital and in voting rights as at 31 December 2012
--------	----------------	--	--

Polski Holding Nieruchomości S.A. (PHN S.A.) – parent company

Subsidiaries:

Warszawski Holding Nieruchomości S.A. (WHN S.A.)	PHN S.A.	93,96%	91,18%
INTRACO S.A.	PHN S.A.	89,21%	85,00%
BUDEXPO Sp. z o.o.	PHN S.A.	99,10%	98,65%
Dalmor S.A.	PHN S.A.	86,94%	86,94%
Wrocławskie Centrum Prasowe Sp. z o.o.	PHN S.A.	100,00%	100,00%
PHN Nieruchomości 3 Sp. z o.o.	WHN S.A.	99,9996%	100,00%
PHN Foksal Sp. z o.o.	WHN S.A.	100,00%	100,00%
Agroman Sp. z o.o.	WHN S.A.	100,00%	100,00%
Port Okrzei Sp. z o.o.	Agroman Sp. z o.o.	100,00%	100,00%
Investon Sp. z o.o.	WHN S.A.	100,00%	100,00%
Warton Sp. z o.o.	WHN S.A.	100,00%	100,00%
PHN 3 Sp. z o.o.	WHN S.A.	70,18%	100,00%
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	Dalmor S.A.	99,00%	99,00%

In 2013, 14 entities joined the group:

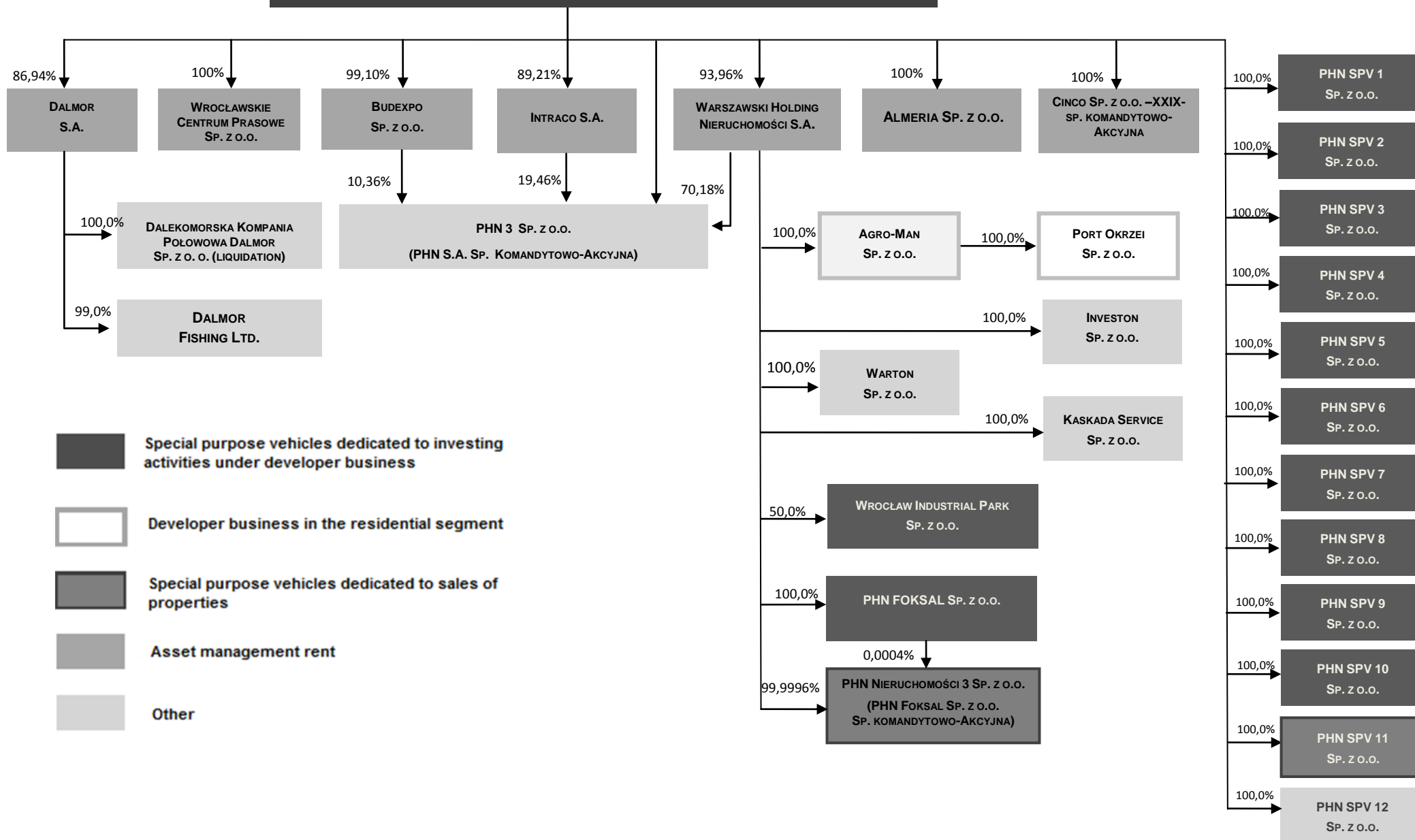
PHN SPV 1 Sp. z o.o.	PHN S.A.	100,00%
PHN SPV 2 Sp. z o.o.	PHN S.A.	100,00%
PHN SPV 3 Sp. z o.o.	PHN S.A.	100,00%
PHN SPV 4 Sp. z o.o.	PHN S.A.	100,00%
PHN SPV 5 Sp. z o.o.	PHN S.A.	100,00%
PHN SPV 6 Sp. z o.o.	PHN S.A.	100,00%
PHN SPV 7 Sp. z o.o.	PHN S.A.	100,00%
PHN SPV 8 Sp. z o.o.	PHN S.A.	100,00%
PHN SPV 9 Sp. z o.o.	PHN S.A.	100,00%
PHN SPV 10 Sp. z o.o.	PHN S.A.	100,00%
PHN SPV 11 Sp. z o.o.	PHN S.A.	100,00%
PHN SPV 12 Sp. z o.o.	PHN S.A.	100,00%
Almeria Sp. z o.o.	PHN S.A.	100,00%
CINCO Sp. z o.o. - XXIX- spółka komandytowo-akcyjna	PHN S.A.	100,00%

Moreover, the Group has investment in a joint-venture Wrocław Industrial Park Sp. z o.o., in which it acquired has 50% stock.

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MANAGEMENT BOARD REPORT FOR THE YEAR ENDED 31 DECEMBER 2013

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POLSKI HOLDING NIERUCHOMOŚCI S.A.



3. Information about the Group's activities

3.1. Group strategy

Pursuant to the strategy of the Group, its overriding objective is to attain the position of the biggest investment company on the market of modern commercial properties in Poland. To achieve this objective, the Group intends to perform the following strategic initiatives:

- ✓ streamlining and optimization of the structure of the real estate portfolio;
- ✓ improvement of the effectiveness of activity in terms of asset management;
- ✓ further improvement of the effectiveness of the Group's operation; and
- ✓ continuation of conservative strategy in financing activity.

Streamlining and optimization of the structure of the Group's real estate portfolio

For the needs of working out the strategy, the Group conducted an analysis of its properties according to several criteria and made a classification of its properties in view of its strategy into the following categories:

- ✓ basic 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 expenditures;
- ✓ basic properties dedicated to commercial projects within an investment program (including both existing commercial properties generating revenues from lease as well as land intended for performance of commercial projects in the future), characterized by a considerable growth potential for the Group's activity and value increase; such properties, after completion of a given project and its commercialization, will remain in the Group's target real estate portfolio; and
- ✓ properties not connected with the target profile of the Group's activity and are planned for sale; these are mainly residential properties generating revenues from lease and developer residential projects, both completed or in progress, which after completion will be sold, as well as other land properties in the Group's real estate portfolio.

In connection with the streamlining and 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, especially taking into consideration modern office space of A and B+ class standard, retail and logistic space. In the medium- or long-term, after completion of the investment program and streamlining and optimization of the structure of the real estate portfolio, the Group intends to own a real estate portfolio consisting altogether of commercial properties generating lease revenues, where modern commercial real estate will make up over 80% of the portfolio according to future valuated market value. In the long-term, the Company intends to own a portfolio consisting of: (i) office space (approximately 50% of the future valuated market value), located mainly in Warsaw and other selected large cities in Poland or around them, (ii) retail space (about 40% of the future valuated market value), located in large and medium cities in Poland and (iii) logistic space (about 10% of the future valuated market value), located near major routes or existing important logistic centers;

Realization of existing and planned investment projects concerning commercial real estate according Group's development model in order to obtain items of the highest class which will provide a stable source of revenues in a long- term perspective;

Completion of existing or planned developer residential projects within the present land bank in order to withdraw from these projects in next five years, excluding projects which may generate profit in a long term;

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 will rigorously assess potential real estate to be purchased on the basis of the following criteria, in particular: (i) compliance with the Group's strategy and the target structure of the real estate portfolio; (ii) potential of creating value for the shareholders and (iii) financing availability at a given time.

Improvement of the effectiveness of the Group's activity in terms of asset management

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

The planned actions will primarily focus on:

Ensuring that lease agreements are extended on advantageous conditions, generating value for the Group by further active monitoring of the market and holding negotiations with current lessees in order to extend the lessee agreements binding at the time with increasing the price of lease and conducting marketing activities, especially by renowned specialized external entities to attract new big and medium-sized corporate lessees;

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

Gradual transfer of larger part of costs connected with real estate on lessees, especially costs of real estate maintenance;

Exploiting the potential associated with future lease space expansion by existing lessees of the Group through active monitoring of the lessees and, if required, offering the lessees 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 lessees and acquire new ones, especially corporate lessees;

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

Increasing the extent to which the Group entrusts to auxiliary functions to its core business to external entities, especially services connected with ongoing

management and maintenance of real estate and constructions, 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 planned modern office space as well as entrusting management of class A office space to external entities having required experience and knowledge.

Further improvement of the effectiveness of the Group's operation

The Group aims to continue to improve its operating effectiveness by implementing the following initiatives for optimizing its corporate structure and cost basis:

Continuation of restructuring activity, including improvement of the Group's organizational structure, in particular: (i) alignment of the operating structure of subsidiaries to the parent company's structure; (ii) continued integration of companies from the Group through financial monitoring and financial reporting systems binding for the entire Group, as well as integration of selected centralized functions at the level of the holding company; (iii) consolidation of selected functions and improvement of business procedures, such as IT systems, for the needs of preparing budgets and tracking asset components; (iv) using the Group's business relationships to obtain cost savings and improve the position in negotiations with respect to business partners. In the medium and long-term, the Group intends to reduce administrative expenses to achieve the best levels observed on the market.

Further restructuring of employment and reduction of employment costs by decreasing the headcount to about 100 employees in the period of next 2-3 years. In particular, PHN S.A. Management Board considers the Group to have the potential for further reduction of human resources costs in the period of next three years and in the long-term perspective, achieving the level attained by the best real estate companies listed on the Warsaw Stock Exchange.

PHN S.A. Management Board will also analyze the Group's corporate structure to find potential alternatives to increase the shareholders' value, including tax optimization. The Group started the corporate structure reorganization program, which led to a reduction of deferred tax liability arose on the difference between the property's book and tax value as at the reporting date. The Group intends to continue reorganization process, including possibility of further decrease of deferred tax liability.

Continuation of conservative strategy in financing

The Group intends to continue the conservative strategy of financing its activity by:

Earmarking considerable amount of own funds for financing the activity, including the investment program, while at the same time using external financing to a moderate extent if justified by the circumstances. At present, the Group finances its core business activity from own funds, without using external financing. In the following years, the Group intends to finance its activity connected with realization of the planned investment program and restructuring using owned funds and generated on the conducted activity as well as proceeds from the disinvestment program. The Group also plans realization of the biggest commercial investment projects in joint ventures with business partners, whose participation will also involve considerable financing of these joint projects, which in line with expectations, will contribute to the decrease of the Group's financial exposure in the realization of its investment program. The Group intends, nevertheless, to take advantage of external sources of financing, such as credits, loans and issue of bonds, to the extent such financing is justified by its accessibility, offered terms and conditions, the Group's financial needs and the actual debt level of the Group at the moment. At the same time, the Group intends to continue its conservative strategy for financing activity as pursued to date, aiming to keep consolidated loan to value

(LTV) ratios at a level not exceeding the estimated 30-40% in the course of realization of the investment program. At the level of investment project design, the Group plans to realize projects in separate companies, in the majority of cases with a joint venture partner, assuming financing development period at the level of companies on market conditions (which at present amounts to approx. 60-70% LTC). Such a strategy will provide the Group with considerable flexibility with regard to choosing the manner 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 foreign exchange rate fluctuation risk. 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, to the extent corresponding to the conservative strategy for financing activity pursued by the Group, to take actions to protect its business against unfavorable influence of fluctuations of foreign exchange rates, especially EUR and USD. 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.

3.2. Description of Group's activities

The Group, established in 2011, is one of the biggest (with regard to valuated 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 concentrate on the core business and maximize the profit, the Group continues to restructure its real estate portfolio covering:

- ✓ optimization of the usage of the property intended to remain in the destination portfolio,
- ✓ modernization and reconstruction of some existing properties and development of some undeveloped plots of land,
- ✓ gradual sale of assets not related to the Group's target activity 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 manufactured products and provided services. Consequently, there are following operating segments for reporting purposes:

- ✓ lease of office and retail space, warehouse and logistic space, residential and other properties,
- ✓ developer business- construction and sale of residential premises
- ✓ fishing activity (discontinued operations) – performed by DKP Dalmor S.A. (at present in liquidation)

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

The Group's Management Board monitors results of operating activity at the level of its operating units to assess the results and take 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.

3.3. Properties portfolio of the Capital Group

As at 31 December 2013, the Group held:

- ✓ 140 properties with clear legal status,
- ✓ 7 properties with unclear legal status, but with the positive perspective of legal status regulation.

Furthermore, the Group held the portfolio of 23 properties with legal defects (with negative perspective of legal status regulation) and shares in the investment project undertaken with an external partner on a property located in Wrocław at the Psie Pole (JV project).

The Group classifies its real estate basic portfolio into two major categories: (i) real estate generating revenues from lease and (ii) investment projects and the land bank. The real estate generating revenues from lease primarily include office space as well as retail and logistic space, and other properties. Investment projects and the land bank include commercial projects in progress, developer residential projects and land.

According to the above classification as at 31 December 2013 the Group had:

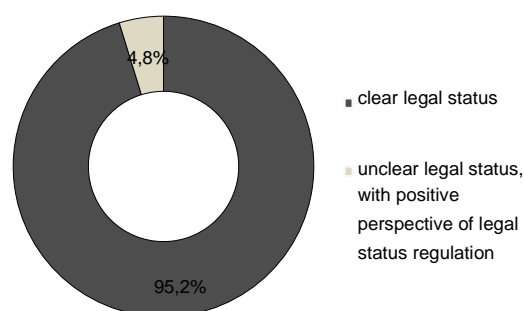
- ✓ 100 properties generating rental income,
- ✓ 47 properties in investment projects and the land bank category.

In 2013, the Group sold three properties located in Warsaw at Farbiarska street, Lektykarska / Smoleńskiego street and Humańska street. The Group has also signed preliminary agreements for sale of five consecutive properties: at Willowa street and Okrzei street in Warsaw, at Broniewskiego street in Zakopane and real estates in Łagów and Parzniew III. Negotiations for the sale of next three properties are currently underway.

Portfolio fair value The fair value of the Group's property portfolio, with clear legal status and with unclear legal status, but with the positive perspective for legal status regulation as at 31 December 2013 amounted to PLN 2.0 billion. On the other hand, the value of the properties with unclear legal status with negative perspective of legal status regulation amounted to PLN 162.5 m. In case of properties with unclear legal status, the Group has made a distinction of their fair values and has assigned it accordingly to the legal category.

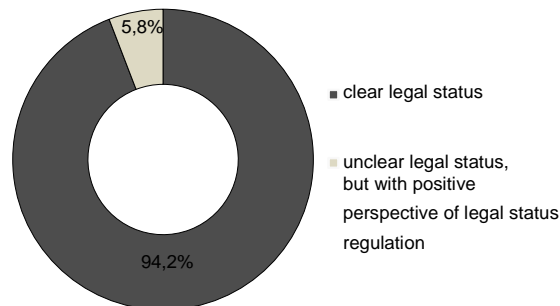
The structure according to the number of real estate and according to the market value of the portfolio of the Group, together with a portfolio of real estate with unclear legal status with negative perspective of legal status regulation and lost property (excluding Joint Ventures) is shown in the following charts.

The structure of the portfolio by the number of real estate
% total



* the item does not contain properties with unclear legal status

The structure of the real estate portfolio by market value
% total



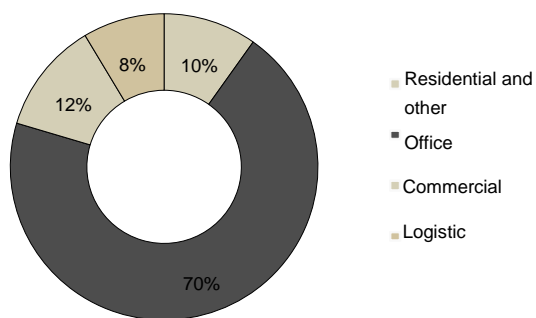
* the item does not contain properties with unclear legal status

As of 31 December 2013, fair value of properties generating rental income amounted to PLN 1.4 billion. In turn, the value of investment projects and land bank amounted to PLN 0.6 billion. The structure is presented in following chart:

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

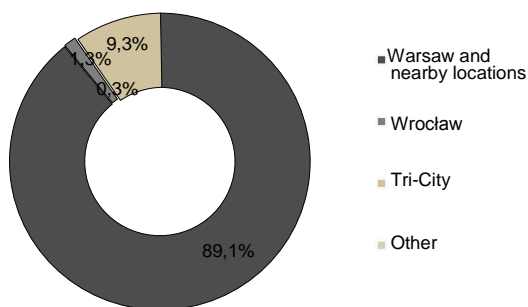
The structure of the real estate portfolio by market value
% total



* the item does not contain properties with unclear legal status

Geographical structure - The Group has properties located mainly in Warsaw and its surroundings. Furthermore, the Group also has real estates in Gdynia and Gdansk, Wrocław, Łódź and in other smaller towns. The geographical structure, segments' structure and the vacancy rate for properties that generate rental income are presented at the following charts:

Geographical structure
% market value

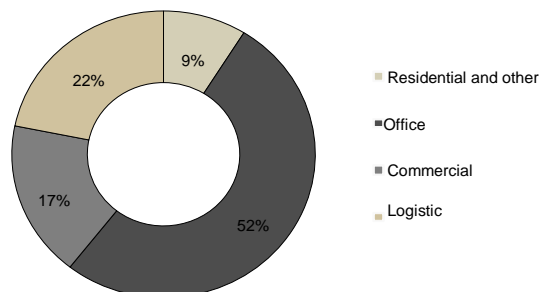


* the item does not contain properties with unclear legal status

Gross leasable area (GLA) of the Group's property with clear legal status and with unclear legal status with positive

perspective of legal status regulation as at 31 December 2013 amounted to more than 300 thousand m². The structure of the real estate portfolio by GLA for the property generating lease revenue is presented below:

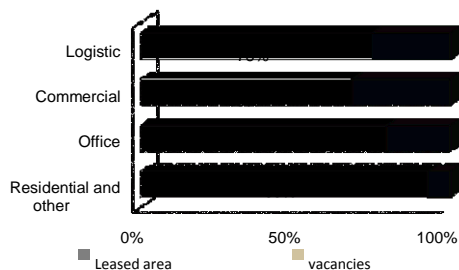
The structure of the real estate portfolio by GLA
% total



* the item does not contain properties with unclear legal status

Vacancy ratio. Vacancy ratio for the Group's properties, with clear legal status and with unclear legal status with positive perspective for legal status regulation amounts to 21.6%

leased area*



* presented % represents the ratio of leased area to GLA area reduced by the area used for own purposes and permanently vacant area

** the item does not contain properties with unclear legal status

Land - the area of land available to the Group, amounted to 1.186 ha as at 31 December 2013. The Group plans to allocate land properties for development, or for sale.

3.4. Markets and structure of customers and suppliers

Poland is the main area of operations of the Group. The Group has the strongest position in the Warsaw agglomeration, as a result of historical circumstances – possession of the largest amount of real estate. Other important places of business activities are Gdańsk, Wrocław and Łódź agglomeration.

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

Lease services offered by the Group comprise:

- ✓ lease of office space,
- ✓ lease of commercial space,
- ✓ lease of logistic and storage space,
- ✓ lease of residential and other space,
- ✓ additional services – lease of the office for starting business, lease of 'virtual office', conference halls, advertising area (wall, facade of buildings and area on the rooftops), parking lots, garages and basements.

Office space. Properties of B and C class, residential properties, residencies used for office areas and diplomatic outposts represent the office areas portfolio. The target group of office areas segment comprises mainly small and medium enterprises both domestic and with foreign capital, that are starting their business activity and looking for the sufficient location for the business or planning change of office location due to economic reasons. The significant group of customers of the Capital Group are diplomatic representations. Letting agencies are potential business partners.

Commercial space. The commercial areas offered by the Group comprise mainly small commercial complexes and Shopping Centre at Bartycka 26 street in Warsaw. The

Group offer is aimed at 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 aimed at marine carriers. Other locations are classified as medium-sized areas and usually exploited by office and commercial areas tenants as additional areas necessary for the business activities.

Residential and other space. Villas exploited as diplomatic outposts, flats and blocks of flats represent residential portfolio. Additionally, the Group owns hotels, schools and preschool facilities.

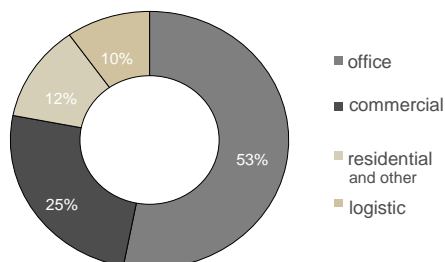
3.5. Tenants

The structure of the Group's lessees is significantly differentiated, as a result, the Group is not exposed to any significant risk associated with a single lessee or a group of lessees. As at 31 December 2013 the average lease area per lessees was approximately 170 square meters

As at 31 December 2013 the Group's space was leased by 1 292 various lessees. The most numerous lessees of the Group include representatives of business services sector.

Tenants structure by type of leased area

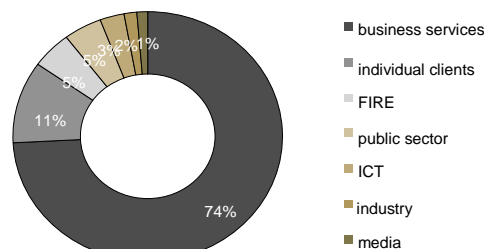
% of total *



* does not include 22 properties with unclear legal status

Breakdown by tenants according to type of business

% of total number of tenants*



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

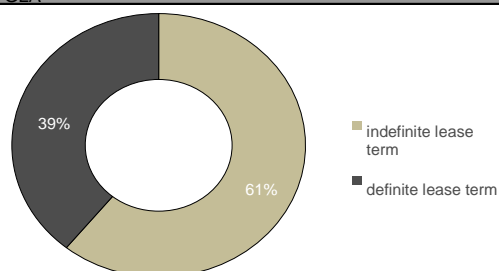
* does not include 22 properties with unclear legal status

Around 61% of all lease agreements are settled for the indefinite time, however, new agreements are based on definite lease term.

Tenants structure based on length of definite lease terms.

Breakdown by tenancy period

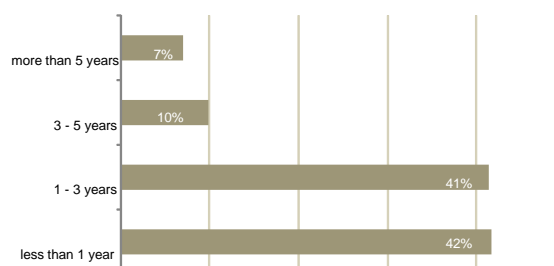
% GLA *



* does not include 22 properties with unclear legal status

Breakdown by length of lease periods

% of fixed-term agreements



In the year ended 31 December 2013, top ten biggest lessees in terms of lease revenues comprised (in alphabetical order): Agencja Nieruchomości Rolnych, ALSTOM Power Sp. z o.o., Bank Ochrony Środowiska S.A., Biuro Generalnego Inspektora Ochrony Danych Osobowych, Drugi Mazowiecki Urząd Skarbowy, Liceum Francuskie RENE GOSCINNY Ambasada Francji w Polsce, Miasto

Stołeczne Warszawa, Poczta Polska S.A., Pion Infrastruktury, TVN S.A., Wojskowa Agencja Mieszkaniowa. Total revenues generated by the above mentioned parties represented 18.3% of consolidated lease revenues. In the year ended 31 December 2013, top ten biggest lessees in terms of lease revenues,

3.6. 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),
- ✓ renovations,
- ✓ utility provision,

- ✓ advisory – legal, business, technical,
- ✓ cleaning,
- ✓ security,

The broad base of suppliers results in that the Group is not dependent on a single supplier. In 2013 the turnover with any of the suppliers did not exceed 10% of Group revenues.

3.7. 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 align the organizational structure and adapt it to the business needs and industry standards.

In 2011 - 2013 the Group introduced broad changes in the management consisting primarily of:

- ✓ introduction of a uniform organizational structure in the Group companies with the centralized management function of the Group's activities in the following five organizational departments: asset management, real estate, projects, finance and operations departments;
- ✓ employment restructuring combined with the outsourcing of accounting services and payroll as well as technical maintenance and administration of the Group's real estate.

4. Financial Situation

Successful restructuring of the Capital Group in line with the strategy was continued, despite the continued economic downturn, which also affected the properties market. The success indicator of its implementation is improvement of operational efficiency in the primary business segment, as well as in other areas, including the reduction of administrative expenses. Improved operational efficiency was observed in each business segment, primarily through effective restructuring policy regarding operational and administrative costs reduction. Gross profit on sales less administrative expenses in the period ended 31 December 2013 amounted to PLN 35.5 m and was more than three times higher than in the comparative year. EBITDA (result on operating activities adjusted by change in investment property valuation, depreciation, impairment of properties classified as property, plant and equipment and inventories) also significantly improved, which compared to the prior year increased by PLN 17.8 m to the amount of PLN 13.1m.

Adjusted EBITDA (EBITDA adjusted by one-offs, i.e. IPO, restructuring, provision for compensation for the untimely transferred residential units, warranty repairs, provision for compensations and non-contractual use of properties) was higher by PLN 9.8 m in comparison to prior year. Improved efficiency, measured by higher profits, was made possible due to the optimization of employment level and operational restructuring of the Group, including the centralization of management, support function and outsourcing. In order to optimize the level of employment in the period from 31 December 2011 to 31 December 2013, the employment was reduced by 531 employees to 183 employees. As a result of employment reduction, salaries and employee benefits were reduced in 2013 compared to 2012 by PLN 19.3 m. This was achieved, while maintaining control over external services costs, which in 2013 compared to 2012 also decreased by PLN 8.7 m due to lower restructuring, IPO and repairs costs by PLN 11.0 m.

4.1. Analysis of consolidated statement of financial position

The major component of non-current assets is investment properties. Their value in the year ended 2013 increased by PLN 16.4 m, as a result of:

- ✓ limitation of space used for own purposes and making it available for lease purposes (PLN 23.9 m),
- ✓ reclassification of part of the Grójecka 22/24 property from assets with unclear legal status (13.1 million PLN),
- ✓ transfer of Łagów , Willowa and Zakopane properties from investment properties to assets held for sale (PLN 17.4 m) - as a result of gaining the buyer,
- ✓ disposal of properties Farbiarska 47 and Humańska 13 (PLN 5.8 m),
- ✓ incurring expenditures related to the construction of developer, commercial projects (PLN 27.8 m) and property modernisation (PLN 7.0 m),
- ✓ impairment write-down (PLN 32.2 m).

Value of property, plant and equipment decreased in the year ended 31 December 2013 by PLN 26.2 m, mainly as a result of:

- ✓ transfer to investment properties due to release of space used for own properties, as a result of further employment restructuring (PLN 23.9 m),
- ✓ depreciation and impairment (PLN 2.4 m).

Other non-current assets did not change significantly.

Current assets in the year ended 31 December 2013 increased by PLN 174.0 m, due to:

- ✓ decrease of inventories related to developer business (PLN 18.9 m),
- ✓ increase in trade receivables and other assets (PLN 155.3 m), mainly due to an increase in value added tax

receivable from sale of properties to subsidiaries (PLN 155.0 m),

- ✓ increase in cash and cash equivalents and short-term financial assets (PLN 39.2 m).

Value of equity attributable to the equity holders of the parent in the year ended 2013 increased by PLN 151.2 m, due to:

- ✓ generated net profit (PLN 100.0 m)
- ✓ change in the ownership structure resulting from issues of shares for acquired shares in subsidiaries (PLN 51.2 m)

Level of non-current liabilities decreased by PLN 115.3 m primarily due to decrease in deferred tax liabilities (PLN 111.8 m) relating to changes in Capital Group structure.

The level of short-term liabilities increased by PLN 168.5 m mainly due to:

- ✓ increase in value added tax payable on sale of properties to subsidiaries (PLN 155.0 m),
- ✓ increase of prepayments received in respect of investment properties to be sold (PLN 2.1m),
- ✓ increase in short-term provisions of PLN 9.1 million, mainly due to reclassification from long-term (PLN 4.9 million) and the creation of provision for non-contractual use of properties (PLN 3.9m),
- ✓ decrease of advances related to the residential real estate activities (12.2 million PLN).

4.2. Analysis of consolidated statement of comprehensive income

	2013	2012	4Q 2013	3Q 2013
EBITDA from continuing operations				
Sales revenues	171.3	187.7	42.8	37.9
Operating expenses	(89.6)	(121.6)	(23.5)	(17.4)
Gross result on sales	81.7	66.1	19.3	20.5
Administrative expenses and costs of sales	(46.2)	(54.6)	(13.9)	(9.4)
<i>Including one - off costs (IPO, Group restructuring)</i>	8.6	8.2	4.9	1.2
<i>Administrative expenses and costs of sales without one - off costs (IPO, Group restructuring)</i>	(37.6)	(46.4)	(9.0)	(8.2)
Net result on sales	35.5	11.5	5.4	11.1
Change in the fair value of investment property and result on disposal	(31.0)	(221.4)	(0.7)	0.7
Other revenues	20.5	7.0	15.0	2.2
Other costs	(32.0)	(29.6)	(12.4)	(5.4)
Profit /(loss) on operating activities	(7.0)	(232.5)	7.3	8.6
Change in the fair value of investment property and result on disposal	31.0	221.4	0.7	(0.7)
Depreciation/ amortization	2.0	2.6	0.4	0.4
Impairment of property, plant and equipment (properties)	0.3	3.8	(0.7)	0.0
Impairment of inventories – land properties	(0.1)	0.0	(1.6)	0.0
Change in the legal status of the property	(13.1)	0.0	(13.1)	0.0
EBITDA	13.1	(4.7)	(7.0)	8.3

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Provision for warranty repairs and damages in the developer business regarding previous years	(0.8)	12.2	0.0	(1.3)
One - offs (IPO, Group restructuring)	8.6	8.9	4.9	1.2
Employment restructuring	6.9	8.8	2.2	1.3
Non-contractual use of properties	0.8	0.0	0.0	0.0
Claims related to previous years	6.4	0.0	6.4	0.0
Adjusted EBITDA	35.0	25.2	6.5	9.5

Analysis of consolidated statement of comprehensive income according to segments is presented below

Lease result	2013	2012	4Q 2013	3Q 2013
Sales revenues	131.2	140.0	31.2	31.8
Operating expenses	(59.1)	(70.5)	(14.5)	(13.8)
Gross result on sales	72.1	69.5	16.7	18.0
Administrative expenses and costs of sales	(33.0)	(32.4)	(11.1)	(7.1)
<i>Including one - off costs (IPO, Group restructuring)</i>	6.4	1.8	4.8	1.2
<i>Administrative expenses and costs of sales without one - off costs (IPO, Group restructuring)</i>	(26.6)	(30.6)	(6.3)	(5.9)
Net result on sales	39.1	37.1	5.6	10.9
Change in the fair value of investment properties and result on disposal	(31.0)	(221.4)	(0.7)	0.7
Other revenues	19.1	5.9	14.7	1.7
Other costs	(30.6)	(23.1)	(11.9)	(5.1)
Profit (loss) on operating activities	(3.4)	(201.5)	7.7	8.2
Change in the fair value of investment properties and result on disposal	31.0	221.4	0.7	(0.7)
Depreciation/amortization	1.7	1.9	0.4	0.3
Impairment of property, plant and equipment (properties)	0.3	1.4	(0.7)	0.0
Change in the legal status of the property	(13.1)	0.0	(13.1)	0.0
EBITDA	16.5	23.2	(5.0)	7.8
One - offs (IPO, Group restructuring)	6.4	2.5	4.8	1.2
Employment restructuring	6.6	6.5	2.2	1.2
Non-contractual use of properties	0.8	0.0	0.0	0.0
Claims related to previous years	6.4	0.0	6.4	0.0
Adjusted EBITDA	36.7	32.2	8.4	10.2

The net result on sales in the core segment of the Group i.e. lease, considering the recession impacting the properties market, decreased by PLN 5.3 m quarter to quarter. This is mainly the result of changes in Group structure and incurring one-off costs (primarily tax on civil law transactions in respect of sales of properties between subsidiaries) . After adjusting for one-offs, net result of the lease segment decreased by PLN 1.7 m quarter to quarter. Comparing 2013 with 2012, net result on sales increased by PLN 2.0 m. After adjusting for one-off costs incurred in connection with the change in Group structure (primarily tax on civil law transactions on sales of properties between subsidiaries)

result has increased by PLN 6.6 m. Declining revenues have been significantly offset by lower expenses being the result of actions taken in previous restructuring programs. The market situation has a negative impact on the ability of counterparties to settle liabilities, resulting that Group in Q4 2013 has made impairment write-down on receivables in the amount of PLN 1.3 m compared to PLN 1.8 m in Q3 2013. Throughout 2013 value of impairment write-downs of receivables amounted to PLN 4.8 m net as compared to PLN 2.1 m net in 2012.

Developer business result	2013	2012	4Q 2013	3Q 2013
Sales revenues	39.5	43.3	11.5	5.9
Operating expenses	(29.8)	(44.0)	(8.8)	(3.4)
Gross result on sales	9.7	(0.7)	2.7	2.5
Administrative expenses and costs of sales	(4.5)	(7.9)	(1.1)	(0.8)
<i>Including one - off costs (IPO, Group restructuring)</i>	0.0	0.1	0.0	0.0
<i>Administrative expenses and costs of sales without one - off costs (IPO, Group restructuring)</i>	(4.5)	(7.8)	(1.1)	(0.8)
Net result on sales	5.2	(8.6)	1.6	1.7
Other revenues	1.2	0.6	0.3	0.5
Other costs	(1.4)	(4.5)	(0.5)	(0.3)
Profit (loss) on operating activities	5.0	(12.5)	1.4	1.9
Depreciation/amortization	0.3	0.6	0.0	0.1
Impairment of property, plant and equipment (properties)	0.0	2.4	0.0	0.0

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Impairment of inventories – land properties	(0.1)	0.0	(1.6)	0.0
EBITDA	5.2	(9.5)	(0.2)	2.0
Provision for warranty repairs and damages in the developer activities regarding previous years	(0.8)	12.2	0.0	(1.3)
One - offs (IPO, Group restructuring)	0.0	0.1	0.0	0.0
Employment restructuring	0.3	0.8	0.0	0.1
Adjusted EBITDA	4.7	3.6	(0.2)	0.8

Adjusted EBITDA in developer business in Q4 2013 amounted to PLN (0.2) m and decreased by PLN 1.0 m quarter to quarter. In 2013, adjusted EBITDA amounted to PLN 4.7 m and was higher by 30% compared to 2012. The decrease in EBITDA quarter to quarter resulted primarily from a decrease of margin and receivables write-offs.

Improved Adjusted EBITDA year to year was achieved by reducing the operating and administrative expenses. As at 31 December 2013, the Group held 132 premises, including 30 contracted premises and 100 premises under construction.

In 2013, the Group contracted 85 premises (Q4 2013: 24 premises, 3Q 2013: 26 premises).

Other business result	2013	2012	4Q 2013	3Q 2013
Sales revenues	0.6	4.4	0.1	0.2
Operating expenses	(0.7)	(7.1)	(0.2)	(0.2)
Gross result on sales	(0.1)	(2.7)	(0.1)	0.0
Administrative expenses and costs of sales	0.0	(1.6)	0.0	0.0
Net result on sales	(0.1)	(4.3)	(0.1)	0.0
Other revenues	0.0	0.5	0.0	0.0
Other costs	0.0	(2.0)	0.0	0.0
Profit/(loss) on operating activities	(0.1)	(5.8)	(0.1)	0.0
EBITDA	(0.1)	(5.8)	(0.1)	0.0
Employment restructuring	0.0	1.5	0.0	0.0
Adjusted EBITDA	(0.1)	(4.3)	(0.1)	0.0

Other business comprises revenues and costs of discontinued activities, including hotel business, property

management, logistics. In analyzed period, both revenues and costs decreased significantly as a result of finalization of discontinuing particular activities.

Unallocated items of consolidated statement of comprehensive income	2013	2012	4Q 2013	3Q 2013
Administrative expenses and costs of sales	(8,7)	(12,7)	(1,7)	(1,5)
Net result on sales	(8,7)	(12,7)	(1,7)	(1,5)
Other revenues	0,2	0,0	0,0	0,0
Profit (loss) on operating activities	(8,5)	(12,7)	(1,7)	(1,5)
Depreciation/amortization	0,0	0,1	0,0	0,0
EBITDA	(8,5)	(12,6)	(1,7)	(1,5)
One - offs (IPO, Group restructuring)	2,2	6,3	0,1	0,0
Adjusted EBITDA	(6,3)	(6,3)	(1,6)	(1,5)

Except for the described results from operating segments, the Group result was affected by administrative expenses of Parent Company as holding entity. From the business

perspective, above mentioned costs are not allocated to any of operating segments.

4.3. Analysis of consolidated statement of cash flows

In 2013 the Group generated positive net cash flow from operating activities in the amount of PLN 34.2 m, mainly resulting from:

- ✓ generating positive adjusted EBITDA in amount of PLN 34.8 m, including discontinued operations of PLN -0.2 m
- ✓ one-off expenditures amounting to PLN 10.4 m relating to IPO, restructuring and reorganisation,

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- ✓ payments of severance pay for employees within the process of employment restructuring in the amount of PLN 7.1 m,
- ✓ VAT receivable of PLN 5.7m on the sale of real estate, which will be paid to the Tax Office,
- ✓ payment of income tax in amount of PLN 5.2 m,
- ✓ positive cash flow from developer business in the amount of PLN 9.9 m resulting from increase of liabilities (mainly advances relating to preliminary sold apartments) and decrease of receivables,
- ✓ PLN 6.5 m as a result of decrease of other working capital items.

Positive cash flow from investing activities in 2013 in amount of PLN 10.2 m resulted from:

- ✓ Proceeds from sales of investment properties in amount of PLN 33.6 m.
- ✓ inflow from interest from deposits in amount of PLN 6.0 m
- ✓ inflows from sales of financial instruments in amount of PLN 4.6 m

which were partially offset by capital expenditure on investment properties in the amount of PLN 34.4 m.

In 2013, the Group generated negative cash flow from financing activities at the level of PLN 0.5 m, consisting mainly of expenses associated with service of debt related to car fleet lease.

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

The Group did not publish financial forecasts.

5. EPRA performance measures

EPRA (European Public Real Estate Association www.epra.com) represent common position of majority of European companies quoted on financial markets that specialize in property management, and supports progress of companies that have commercial properties in their portfolio. EPRA created a committee, consisting of CFOs,

investors and advisors of associated companies, which analyses reporting issues affecting property market and takes actions to provide uniform reporting standards in cooperation with IASB. Below, the Group presented selected ratios elaborated by EPRA.

EPRA earnings

As of EPRA, the ratio result represents information, relevant from shareholders point of view, about operating activity generated by the properties portfolio held by the Company.

	Year ended	
	31 December 2013	31 December 2012
Earnings from lease segment*	110,6	(160,2)
Adjustments	14.7	181.9
Change in fair value of investment properties and result on disposal	31.0	221.4
Change in the legal status of the property	(13.1)	0.0
Impairment of property, plant and equipment (properties)	0.3	3.2
Deferred tax from above adjustments	(3.5)	(42.7)
Net EPRA earnings from rental activities	125.3	21.7
Adjustments	(95.0)	(4.1)
One - offs (IPO, Group restructuring)	6.4	2.5
Employment restructuring	6.6	6.5
Non-contractual use of properties	0.8	0.0
Claims related to previous years	6.4	0.0
Interest from cash and cash equivalents	(5.7)	(8.2)
Income tax expense and deferred tax from above adjustments	(2.8)	(0.2)
Fiscal effect of in-kind contribution	(106.7)	(4.7)
Adjusted Net EPRA earnings from rental activities	30.3	17.6

* Profit/ (loss) on operating activities: 2013: PLN -3.4 m, 2012: PLN -201.5 m after result on rental income from financing activities: 2013: PLN 6.1 m, 2012: PLN 0.4 m, income tax in 2013: PLN 107.3 m,

2012 PLN 40.8 m and shares in subsidiaries in 2013: PLN 0.6 m, 2012: PLN 0.1 m.

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EPRA NIY

Ratio EPRA NIY (net initial yield) is a relation of lease revenues decreased by non-recoverable operating costs of property for the year to the fair value of property.

	2013	2012
Investment properties as of statement of financial position	1 927.9	1 911.5
Land and commercial, developer projects in progress	(507.5)	(501.5)
Investment properties generating lease revenue	1 420.4	1 410.0
Lease result as of the statement of comprehensive income	72.1	69.5
Adjustments	(6.6)	(11.0)
<i>Result from land and commercial developer projects in progress</i>	<i>(0.3)</i>	<i>(0.9)</i>
<i>Result from properties with unclear legal status</i>	<i>(8.0)</i>	<i>(9.9)</i>
<i>Result from assets of disposal group classified as held for sale</i>	<i>0.1</i>	<i>(0.6)</i>
<i>Fit out exclusion</i>	<i>1.6</i>	<i>0.4</i>
EPRA earnings from rental activities	65.5	58.5
Estimated transaction costs (3%)	42.6	42.3
EPRA NIY	4.5%	4.0%

EPRA NAV i EPRA NNNAV

Ratio EPRA NAV (net asset value) presents fair value of net assets in a long-term view. Ratio EPRA NNNAV adjusts ratio

EPRA NAV to this position of assets and liabilities, which in EPRA NAV are recognised in different value than fair value.

	31 December 2013	31 December 2012
Net asset attributable to the shareholders of the parent	1 861.7	1 710.5
<i>Long-term provision for deferred income tax</i>	<i>82.7</i>	<i>165.0</i>
EPRA NAV	1 944.4	1 875.5
Difference between book value and fair value of asset including tax effect	14.5	10.7
EPRA NNNAV	1 958.9	1 886.2

6. Brands management strategy

In September 2013, PHN Group adopted a new Products Brands Management Strategy, designed to organize the properties portfolio. Due to distinction of two groups of properties (new investment projects and the best existing properties) two product brands emerged. The split of realized investments into "CITY" and "HUB" will allow to access the key group of tenants and to highlight the advantages of the various segments of properties.

Brand "CITY" includes investments targeted to tenants looking for office space in central, attractive locations.

This group of properties is distinguished by high quality materials, excellent exposure and prestigious surroundings.

Brand "HUB" is characterized by office, logistics and commercial properties prepared for tenants seeking a high standard and functional solutions. Their distinctive feature is the high quality, friendly and inspiring atmosphere for work and good connection to the city center and major exit routes.

7. Assessment of financial resource management

Profitability ratios

	31 December 2013	31 December 2012
Operating profit margin [1]	19.0%	12.9%
Total return on assets (ROA) [2]	1.4%	1.1%
Return on equity (ROE) [3]	1.8%	1.3%

[1] Adjusted EBITDA/Revenues from operating activity

[2] Adjusted EBITDA/Assets

[3] Adjusted EBITDA/Equity

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Operating profit margin in 2013 was 19.0% as compared to 12.9% in 2012. The increase was mainly caused by a decrease in costs of real estate maintenance.

Total return on assets in 2013 amounted to 1.4%, remaining at the same level as in 2012.

Return on equity ratio was 1.8% in 2013 as compared to 1.3% in 2012. The increase was caused by a higher ratio of adjusted EBITDA described above and lower level of equity.

Liquidity ratios

	31 December 2013	31 December 2012
Liquidity I ratio [1]	0.9	2.1
Liquidity II ratio [2]	1.6	2.5

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

[2] (Current assets – inventories)/Short-term liabilities

The liquidity I ratio was at the level of 0.9 as at 31 December 2013 against 2.1 as at 31 December 2012. The decrease was primarily due to an increase in short-term liabilities,

which resulted from an increase in payables in respect of VAT on real estate sales within the Group.

The liquidity II ratio was at the level of 1.6 as at 31 December 2013 against 2.5 as at 31 December 2012. The

change resulted from a significant increase in the balance of current liabilities in respect of VAT on properties sold to subsidiaries.

Debt ratios

	31 December 2013	31 December 2012
Debt ratio [1]	18.9%	17.9%
Debt to equity ratio [2]	81.1%	82.1%

[1] (Assets -equity) / Assets

[2] Equity / Assets

As at 31 December 2013, the Group's debt ratio was 18.9% against 17.9% in 2012. At the same time, in the analyzed reporting periods, the Group maintained a high level of debt-to-equity ratio: 81.1% as at 31 December 2013 and 82.1% as at 31 December 2012.

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

The Group does not have all the permits or consents required with respect to owned civil structures

The Group does not have at its disposal complete documentation regarding purchase, construction, modernization and use of some of the properties and civil structures owned by it at present. This results, first of all, from incompleteness of the archive, records and other relevant documents owned by the Group and public administration bodies. In connection with this, it is impossible to guarantee that the Group or its legal predecessors or third parties that leased or used the real estate or civil structures possessed now by the Group obtained all the required permits, consents and other administrative decisions in that regard or made notifications and made all the payments required in connection with purchase, construction, use, modernization and expansion of the given civil structure. Furthermore the Group cannot guarantee that it satisfies all requirements defined in administrative decisions or that real estate and civil structures fulfill all the conditions, including technical ones, making it possible to obtain all the required administrative decisions. The above risks primarily result from: (i) the nature of the Group's portfolio, which includes many civil structures built several dozen years ago; (ii) a long-term operating history of companies from the Group and their legal predecessors as well as organizational and corporate changes occurring in the past, which affected companies from the Group and their legal predecessors, (iii)

events of the nature of force majeure (e.g. fires, flooding), (iv) irregularities caused by actions of third parties (e.g. former tenants and lessees of real estate owned now by the Group, as well as the owners or lessees of the real estate before it was included in the Group's portfolio), (v) human errors of employees of the Group's legal predecessors; and (vi) unclear provisions of law or their erroneous interpretation, especially in the period when the Group's civil structures were built. If a relevant public administration body decides that, in particular as a result of inspecting the real estate or civil structures, with regard to the Group's properties or civil structures, not all the notifications required by law were made or not all the required permits, consents and other administrative decisions were issued with respect to their construction, repairs and use or that the present conditions of using such properties or civil structures fail to satisfy the requirements provided for by law, it may, among others, (i) prohibit the use of a given civil structure by the Group, (ii) obligate the Group to adjust the conditions prevailing in the given civil structure to conditions required by law or (iii) impose on the Group the obligation to restore the real estate to the previous condition, in particular by ordering to dismantle the civil structure.

In some cases, in connection with the condition of civil structures or conditions in which they are found, it will not be possible to legalize the building without performing important repairs or some other type of construction works with respect to such civil structures, which will entail the necessity to incur

large capital expenditures by the Group. Furthermore, administrative bodies may impose on companies from the Group administrative penalties and fines for the present or past violations of administrative requirements. This may also make it necessary for the Group to terminate lease agreements concerning such civil structures or make it possible for lessees to terminate lease agreements themselves.

The Group attempts to reduce this risk by analyzing carefully documents in its possession and taking actions to obtain required permits and consents.

The Group uses some civil structures in a manner inconsistent with the manner of use specified in relevant administrative decisions

The Group uses some of the civil structures owned by it in a manner inconsistent with their purpose as reported to public administration bodies or as defined in administrative and other decisions. In addition, the Group cannot guarantee that all of their real estate satisfy all the technical requirements envisaged for the given manner of use, including conditions concerning fire safety, work safety and sanitary conditions which are necessary for using the buildings in the manner actually used by the Group. The above risks primarily result from: (i) the nature of the Group's portfolio, which includes many real estate items built several dozen years ago; (ii) a long-term operating history of companies from the Group and their legal predecessors as well as organizational and corporate changes occurring in the past, which affected companies from the Group and their legal predecessors, (iii) irregularities caused by actions of third parties (e.g. former tenants and lessees of real estate owned now by the Group, as well as the owners or lessees of the real estate before it was included in the Group's portfolio), (iv) human errors, including errors made by employees of the Group; and (vi) unclear provisions of law or their erroneous interpretation with regard to the given factual status.

At most 70 buildings of the Group, including not more than 41 buildings recognized as real estate devoid of legal defects and real estate with legal defects (potential for positive resolution), of the total gross leased area (GLA) of 50,766 m², constituting 31% of the valuated market value of the Group's real estate portfolio, leased for office purposes, are registered as residential buildings. Companies from the Group failed to make relevant notifications about changed manner of using such buildings and neither did they obtain all the administrative decisions in that scope. Furthermore, conditions with respect to fire safety, work safety and sanitary conditions as well as other conditions of use of such

buildings may not fulfill all the requirements in the above scope for real estate used as office space.

If a public administration body decides that there occurred a change in the manner of using a civil structure or some part of it, in particular from residential to office space, without the required notification, it may withhold the use of the civil structure or part of it, imposing at the same time the duty to pay legalization fee and then order the Group to restore the civil structure or part of it to the previous manner of use. In addition, the administration body may impose of companies from the Group administrative sanctions for violating, now or in the past, the permitted manner of using the given civil structure. Using a civil structure or part of it in a manner inconsistent with its purpose may also result in other adverse consequences for the Group, e.g. with regard to increasing statutory charges (including real estate tax whose rates depend on the manner of using the real estate) incurred by the Group, also in previous years. In particular, the obligation to adjust the real estate to requirements for office space will involve additional expenses incurred in connection with such a formal change of manner of use, also because of increasing the annual fee for perpetual usufruct from 1% (use for residential purposes) to 3% (use for office purposes), which will affect the amount of net operating profit generated by the Group from such real estate. This may also cause the Group to terminate lease agreements concerning some real estate items, especially residential premises used as office space or cause lessees of the Group to terminate lease agreements themselves.

The Group may be subject to increased competition from other entities investing or managing real estate or developers

The Group has competed for some time, especially with other entities investing in real estate, both local and international, those managing real estate and developers, as well as other entities leasing real estate. Competition on the market may lead to the situation in which, among others, there is a shortage of lessees, there is a pressure from lessees to reduce rents (which occurred in 2009) and the costs of marketing activities and costs of performance of planned projects are on the increase. The development of the Group's activity and its profitability depend, among others, on the level of the ratio of unleased space and the rent level. In addition, the development of the Group's activity depends to a large extent on proper performance of repairs in the Group's structures. If attractiveness of a location is adversely affected by a competitive building in the same area, completion of the given real estate may be delayed or discontinued and also may not generate expected revenues.

The Group is exposed to unfavorable changes in regions where its real estate is located and in trends in leasing commercial real estate

The Group's real estate is under the influence of macro-economic factors and specific local conditions in the region where it is located. A considerable portion of the Group's real estate is found in Warsaw, in its neighborhood or in some other largest cities of Poland. In consequence, the Group may be particularly exposed to unfavorable changes on the real estate market in Warsaw or in other regions where it conducts activity. These changes may proceed more intensively or their extent may be greater than in other regions of Poland.

The Group's real estate portfolio focuses on commercial space, especially office space, which causes the Group to be exposed to unfavorable changes taking place in these segments of the real estate market in Poland, including increased competition or increased saturation in these segments.

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

The Group presents valuation of most of its assets according to their fair value, which is assessed by external real estate experts. Real estate is valued on the basis of a number of assumptions and forecasts, which may differ from the factual data and parameters or actual events to occur in the future and, consequently, such valuations are uncertain.

Such assumptions concern in particular the right to use the real estate, analyses of the condition of the environment and the land, claims of third parties, lease agreements, floor space, equipment and furnishing as well as spatial planning. Valuation may also be made on the basis of specific assumptions concerning particular real estate items if: (i) is it required that valuation should be based on facts which are significantly different from those existing as at the valuation date; or (ii) these are assumptions that a potential purchaser could not be reasonably expected to make on the valuation date because of the existing market conditions. It is not certain that the present valuations of the Group's real estate reflect prices which could be obtained in the event it is being sold or that the assumptions made while performing the valuation and concerning capitalization rate and achievement of assumed annual revenues on lease are fulfilled. Forecasts may turn out to be incorrect because of a limited amount and low quality of publically available data and surveys concerning Poland. An additional factor influencing valuation is the fact that such parameters as costs of construction and modernization of real estate are estimated by the Group based on current or forecasted

prices of materials and services, which may be different from actual prices from the period when the associated costs are being incurred. If forecasts, estimates and assumptions on which valuations of real estate from the Group's portfolio are based turn out to be incorrect, the actual value of the real estate in the Group's portfolio may be significantly different from that shown in the Valuation Report or from future valuations of the Group's portfolio. In addition, valuations of real estate may be made with the use of various methods and, even if the same methods have been applied, these may be differently interpreted. Due to this, it is impossible to guarantee that experts performing valuations of the Group's real estate apply the same methods or obtain the same results.

The Group's real estate will be subject to independent revaluation performed in accordance with the Group's accounting principles. Consequently, pursuant to principles described in IAS 40 "Investment Property" adopted by the EU (which applies to real estate valued according to fair value), any increase or decrease in the value of the Group's real estate is recognized as a change to fair value of investment property in the Group's consolidated statement of comprehensive income for the period in which the change occurred. Investment property under construction, for which it is impossible to determine fair value in a reliable way, are valued according to historical costs decreased by accumulated impairment value. If criteria for impairment are satisfied, the resulting profit or loss is disclosed in the Company's consolidated statement of comprehensive income. As a result, valuations of the Group's assets are subject to fluctuations and the Group may record significant profit or losses in particular periods depending on changes to fair value or other valuation of its real estate. If market conditions and prices of comparable commercial real estate are unstable, the Group may record significant profit or losses from revaluation of present real estate. A decrease in the value of the Group's real estate may adversely affect the Group's capacity to obtain and service external financing and may exert negative influence on the Group's activity, its financial standing and operating result.

Costs of real estate maintenance may increase with the Group having simultaneously limited or no possibilities of increasing rents or charging such costs to lessees

Many lease agreements of the Group does not provide for lessees to incur directly operating costs, costs of utilities connected with the leased space or real estate management costs. Such costs are consequently incurred by the Group and then transferred to the lessees as lump sums and, as far as possible, by raising the rents. Market conditions and requirements with respect to rents may limit the Group's

capacity to transfer such costs in their entirety or in part to lessees. In particular, most of the Group's lease agreements include a provision about partial or complete indexation of the rent, usually once a year. However, the relevant reference ratio used for the needs of indexation provisions (mainly consumer inflation index announced by the Polish Central Statistical Office, GUS) may not reflect completely or at the right time an increase in particular costs of real estate maintenance. Furthermore, if a lease agreement does not include a lease rent indexation provision, the rent may remain at a stable level for a relatively long period (in particular, in the case of agreements concluded for definite term), even though the real estate maintenance costs incurred by the Group increase. The real estate maintenance costs may increase because of many factors, including inflation. A considerable increase in the real estate maintenance costs that cannot be compensated by raising rents may have a significant adverse influence on the Group's activity, its financial standing and operating result.

To minimize this risk, the Group takes actions in the course of performing the strategy of transferring gradually a greater part of real estate costs to lessees.

The Group may fail to obtain financing for its investment program on expected terms and conditions, in the expected period or any financing at all

Performing its investment program, the Group will incur considerable preliminary expenditure, and in connection with it, it will need considerable financial resources, including those coming from external financing.

Availability of external financing depends on many factors, including the market situation, accessibility of credit in the entire sector, the possibility of placement of debt securities issued by the Group, the Group's reputation with certain lenders and the value of security that the Group may establish to secure the debt taken out, with the majority of these factors being out the Group's control. The present instability of financial market may make it difficult to obtain financing on the terms and conditions assumed by the Group. Without the possibility of obtaining financing on satisfactory terms and conditions, the present financial resources of the Group may turn out to be insufficient to perform its strategy, and the level of the Group's development may be not as great as predicted and the rate of achieving specific strategic objectives may be slower than originally assumed.

If the Group's capital needs significantly diverge from those assumed now, proceeds obtained by the Group on the sale of its real estate from outside of the core business and held for sale within the disinvestment program are lower than

expected or the Group does not find a desirable partner for the needs of a joint venture ensuring adequate financing for the construction of a given facility, then it may be necessary for the Group to obtain additional external financing in a higher amount than originally predicted.

Furthermore, additional costs related to service of such financial debt, if it is taken out in the future, including costs resulting from variable interest rates and foreign exchange rate fluctuations, may make the Group's financing conditions less favorable than originally predicted, which may have a significant adverse influence on the Group's activity, its financial standing and operating result.

The Group may not be able to sell its real estate held for sale within the disinvestment program in the planned period

The Group's strategy assumes generating revenues also from the sale of some of the Group's properties unconnected with the target profile of the Group's activity, which are held for sale within the disinvestment program. Real estate are assets of relatively low liquidity level as compared to other asset components and its sale is usually a complex and long-term process. Between the decision to start the real estate process is taken by the Group and the date on which such a sale is made a long time may elapse, longer from the period assumed by the Group, because of factors independent of the Group. In this period, in particular, market conditions may deteriorate or an entity interested in purchasing a specific real estate item may abandon its intention. As a result, the Company may not guarantee that it will achieve revenues from sold real estate at a level defined in valuations for particular properties. The sale process may be also delayed or stopped because of reprivatization claims made against Companies from the Group. Such limitations or other actions of third parties may adversely affect the Group's capacity 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 advantageous terms and conditions or by a reasonable deadline, this may adversely affect its cash flows and financing capacity, which in turn may exert a significant adverse influence on the Group's activity, financial standing and operating result.

The Group incurs risk resulting from performing some projects within joint ventures

The Group intends to perform most of its commercial developer 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. In connection with this, even if the Group has a

controlling interest in the given project, certain decisions about these projects may require consent or approval of the other partners in the venture. There might occur disputes between the Group and its partners in joint ventures, which might mean that the Group is not able to manage or complete the given project in the manner it thinks reasonable.

Specific types of risk associated with joint ventures described above are as follows:

- ✓ the Group's partners in joint ventures may have different objectives from the Group, especially with respect to deadlines for completing joint projects, their valuation, possible sale or refinancing;
- ✓ the Group's partners in joint ventures may take actions breaching the agreement concluded with the Group, the Group's instructions or requests, policy, or may make attempts to thwart the Group's actions;
- ✓ the Group's partners in joint ventures may become bankrupt or insolvent;
- ✓ the Group may be obligated to provide additional financing or establish security for financing banks or required by the partners in the venture;
- ✓ situation where project performance is not commenced by the assumed deadline or is interrupted for reasons for which only the Group's partner in such joint venture is to blame; and
- ✓ the Group's partners within joint ventures may not have adequate knowledge, experience or funds to ensure project completion.
- ✓ Even if the Group exercises control over joint venture, some basic decisions (concerning e.g. sale, refinancing or conclusion of a lease agreement or a contract with a general contractor as well as conditions of taking such actions or provisions of agreements) may require consent given by the partner in the joint venture. If the Group exercises control over a specific-purpose vehicle with its partner and holds the same number of shares and voting rights in the specific-purpose vehicle, the Group may not reach agreement with the partner in the joint venture on any matter or all matters, including those concerning financing and performance of relevant projects, which may cause delays or abandoning the performance of the Group's developer projects, affect meeting the deadline for completion of such projects according to the assumed schedule or result in an increase in costs incurred by the Group in connection

with performance of a given developer project within the framework of the joint venture.

The Group may not obtain required consents to concentration

The Group's activity may require consents to concentration to be obtained from relevant authorities. In particular, the Group intends to perform some of its projects within joint ventures, which constitutes a form of concentration as defined in relevant provisions on competition protection and therefore in some cases will require to be reported to the relevant competition protection authority and to obtain a decision granting such consent. Pursuant to relevant provisions of law, entrepreneurs participating in a concentration which has been reported are obligated to withhold from performing it until the relevant decision is issued granting consent to the concentration or until the deadline by which such a decision should have been issued elapses. In particular, if a concentration is performed without obtaining required consent, the President of the Office of Competition and Consumer Protection (UOKiK) may, among others, impose on the entrepreneur, by issuing a decision, pecuniary penalty in the amount of up to 10% of revenues achieved in the tax year preceding the year in which the penalty was imposed.

It is not certain whether the President of UOKiK or some other competent body give consents to concentration awaited by the Group by the assumed date, which may make hinder, delay or prevent the performance of certain planned projects and loss of already incurred costs in connection with preliminary works on such projects.

The Group is exposed to risk 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. The success in the performance of construction projects or important repairs depends on the Group's capability to employ general contractors who perform projects in compliance with accepted standards of quality and safety, on commercially justified conditions, by the agreed deadlines and within the approved budget. If it is impossible to employ general contractors on commercially justified conditions and if general contractors fail to comply with accepted standards of quality and safety or to complete construction or repair by the agreed deadlines and within the approved budget, this may cause an increase in the costs of project performance, delay its completion as well as claims against the Group. In addition, such events may adversely affect the Group's image and potential for selling completed projects.

Strong financial position and liquidity of the Group's general contractors may turn out to be insufficient in the event of considerable deterioration of economic situation on the real estate market, which in turn may lead to their bankruptcy, affecting adversely the performance of the Group's investment program. Possible security, usually established by general contractors to secure performance of obligations following from relevant agreements concluded with the Group, may not cover all the costs and damage incurred by the Group in such circumstances.

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

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

Demand for leased real estate depends also on the physical condition of the real estate and its conditions. For real estate to be attractive to lessees and to generate specified revenues in a long-term perspective, the conditions and the technical condition of the given real estate should be maintained by the Group at a level complying with variable needs of lessees as well as legal and regulatory requirements.

Maintenance of the environment and the technical conditions of leased real estate at an appropriate level may entail considerable costs, which are normally charged to the lessor. The Group may not be able to transfer such costs of repairs and modernizations to other persons, especially lessees.

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 expenditures in the immediate future to adjust them to the market standards. In addition, certain real estate items included in the Group's portfolio require from the Group to incur 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 necessity of modernization and appropriate repairs earlier

than assumed may be caused by increasingly aggressive competition on the real estate lease market with other lessors or the Group may lose some lessees or be forced to reduce the rent amount. In addition, the need for modernization or repair of some property of the Group may follow from external causes independent of the Group, including force majeure events, which, at a given moment, may cause the Group to have to incur costs unplanned for the given year or considerably exceed such costs planned for the given year. The Group's real estate may also suffer damages because of hidden defects (which are not covered by insurance policies or statutory warranties or building guarantees) or because of influence of external factors (e.g. floods, increase in groundwater level, landslides). Additionally, the Group may also be obligated to remove consequences of external factors or repair revealed defects e.g. without the possibility of transferring these costs to third parties, especially lessees.

Expectations of lessees about real estate quality will probably continue to increase partly as a result of growth of the Polish economy and increasing availability of good quality commercial space. These trends, if continued, may also make it necessary for the Group to make ongoing investments in modernization of its real estate and in other real estate.

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

Provisions of law applicable to the Company or other entities from the Group include the Commercial Company Code (KSH), the Act on Rules for Exercise of Entitlements Vested in the State Treasury and the Commercialization and Privatization Act, pursuant to which, for certain legal acts to be valid, it is necessary to preserve special form or obtain consent from specific company bodies or a public administration authority. In particular, companies from the Group, as state legal persons, are required to obtain consent from the minister competent for matters of the State Treasury to conclude certain property lease agreements, pursuant to the Act on Rules for Exercise of Entitlements Vested in the State Treasury; without this consent, such lease agreements are null and void. In the past, as at the date of this report – in the case of Wrocławskie Centrum Prasowe, which continues to be a state legal person – companies from the Group have not applied for such consent, as a result of which the concluded lease agreements are invalid. This situation was caused, first of all, by doubts whether such consent is required, as well as the adverse influence of the period and procedures connected with obtaining such consents on ongoing operating activity of Companies from the Group and their legal predecessors,

which could disturb the regular course of the 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 as a result of initiating the process of selling shares/ownership interests of these companies to entitled employees and their heirs on the terms and conditions defined in the Commercialization and Privatization Act, i.e. 24 October 2011 (for Budexpo, Intraco and Warszawski Holding Nieruchomości) and 28 May 2012 (for Dalmor), and all the agreements concluded by Wrocławskie Centrum Prasowe may be rendered invalid for the above reason. To the Management Board's knowledge, by the date of this report, there has not been a single case of challenging, by third parties, including lessees of the Group, the validity or effectiveness of the lease agreements concluded by companies from the Group without obtaining the above consent. Furthermore, in the past, it is possible that companies from the Group did not fully satisfy other requirements of provisions of law with respect to legal acts performed by these companies (such as, e.g. the requirement of observing the form of notary deed for legal acts performed in the past between companies from the Group (or their legal predecessors) and the State Treasury as the sole shareholder (partner) of such companies, obligation to apply to competent public administration authorities for declaration about obtaining perpetual usufruct right of real estate on the terms and conditions and by the deadline as defined in the Real Estate Management Act and other provisions of law, obligation to obtain permits and other administrative decisions for specific actions, obligation to obtain consents of authorities to performing legal acts) and consequently effectiveness or validity of these acts may be undermined. In connection with the above, there is a risk of challenging the effectiveness or validity of some corporate actions taken within the Group.

Perpetual usufruct agreements concluded by Companies from the Group may be terminated or may not be extended for further periods

As at 31 December 2013, the Group is a perpetual usufructuary of 87 real estate items based on perpetual usufruct agreements concluded with the State Treasury or local government units or their associations. A perpetual usufruct agreement is concluded for definite term, 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 because of an important social interest.

An agreement to let land for perpetual usufruct concluded by a Company from the Group may be terminated before the elapse 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, especially if buildings or facilities defined in the agreement have not been built. The Group's inappropriate use of the land let for perpetual usufruct also entails the obligation to compensate the damages resulting from such a state of affairs. A perpetual usufruct agreement is also terminated on the basis of a legally binding decision of a court or a final administrative decision granting the right to the real estate let for perpetual usufruct to an entity taking a legal action against the State Treasury or local government units based on a reprivatization claim for restitution of the real estate.

In view of the large number of properties used by the Group on the basis of perpetual usufruct agreements, the Group cannot ensure that it has fulfilled all the obligations defined in these agreements. Consequently, the Group cannot exclude the risk that such agreements are terminated by the State Treasury, local government units or their associations being parties to the agreements before the elapse of the period for which they were concluded. In addition, the Group cannot guarantee that all the concluded perpetual usufruct agreements are extended for further periods or that the agreements are not terminated because of reprivatization claims or other claims for restitution of real estate. If an agreement is terminated with respect to one of land plots being a part of the Group's real estate which is included in the Group's investment program, this may hinder or delay the performance of such a program.

The Group may fail to receive administrative decisions in time or it may receive them on assumed terms and conditions or it may not receive them at all

In the framework of its activity and its asset management, the Group is obligated to obtain a great number of permits, consents or other types of decisions from public administration authorities, in particular development, building and use permits for their real estate. The Group may not guarantee that any of such permits, consents or other types of decisions in connection with existing properties or new projects are obtained in time or that they are obtained at all. Neither may the Group guarantee that any permits, consents or other types of decisions held now or obtained in the past are not withdrawn or that their validity term is extended. Furthermore, some decisions of public administration authorities may be issued on condition that the Group fulfills

certain additional conditions (including, e.g. ensuring appropriate infrastructure on the part of the Group) or may involve imposition of additional conditions and obligations on the Group, which may entail the necessity to incur additional costs and prolongation of the procedure.

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 them more effectively or in conformity with tendencies prevailing in the given period on the real estate market. It may turn out that it is impossible to introduce such changes because of problems with obtaining or modifying the required permits, consents and decisions, especially in 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 within the Group's regular operation. Legal disputes, which individually are relatively of little importance, may refer to the same or similar factual states, as a result of which the total value of the object of the dispute of the Group in such a situation may become material for its activity. The Group's properties may be subject to claims, and the Group may be held responsible for events at building sites such as accidents, injuries or deaths of its employees, employees of subcontractors or other persons visiting building sites. Other disputes which may involve the Group include in particular disputes with individual residents concerning replacement or maintenance of equipment or finishing in residential premises, disputes concerning lease and settlement of fees for utilities. Because disputes in which the Group appears as a party recur, certain situations/events may repeat themselves.

Furthermore, construction of civil structures and sales of real estate, especially apartments within the Group's developer residential projects involves the risk of claims brought in connection with defects of construction works and claims for repair works in connection with defects in real estate, especially within guarantees. The Group cannot ensure that such claims are not reported against it in the future or that repair works or other works are not necessary.

Also, if the Group's assets are subject to legal claims made by third parties and parties to the dispute did not reach agreement or conclude a settlement, such claims may, among others, delay to a significant extent planned activities of the Group.

The rights to own or use real estate held by the Group may be challenged by reprivatization claims

The Group is exposed to the inevitable risk connected with investing in Poland, resulting from unclear legal status of some real estate located in Poland. After nationalization regulations came into force in Poland after World War II (mainly at the end of 1940s and the beginning of 1950s), many private properties and companies were taken over by state authorities. In many cases, property was collected in breach of the prevailing law. In particular, real estate in Warsaw was governed by a special decree of 1945, on the basis of which many Warsaw properties were nationalized (the "Warsaw Decree"). In the years 1989-1990, after Poland's transformation to market economy, many former real estate owners or their legal successors began to make 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. But to date, in Poland, no law has been passed to regulate reprivatization procedures in a comprehensive way. Pursuant to currently prevailing law, former real estate owners or their legal successors may file applications to public authorities to repeal administrative decisions on the basis of which their real estate was expropriated if such administrative decisions had been issued in breach of law binding at the time.

To the Management Board's knowledge, the Group's portfolio of real estate with legal defects (with little potential for positive resolution) includes 22 items of real estate. The Group classified further 11 real estate items (and land plots forming part of properties at Świętokrzyska 36 and Bartycka 26) to its portfolio of real estate with legal defects (with potential for positive resolution). If real estate is classified as having legal defects, this means that: (i) the Group may have no right to own such real estate, (ii) the ownership right held by the Group or the State Treasury has been challenged by third parties, or (iii) the Group may have problems to determine beyond doubt that it holds the ownership right, perpetual usufruct right or some other property right to the real estate or that it uses the real estate on the basis of a concluded agreement or some other legal grounds. Therefore, the Group may lose the right to own some of its real estate in favor of former owners, heirs, claims purchasers or other entitled persons. There is also a risk that in some cases the Group will be obligated to return some benefits obtained in connection with using the real estate or to pay compensation for using the real estate without legal title. The Group established a reserve 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. Such a reserve was not established for the portfolio of real estate with legal defects with potential for positive resolution. The real estate classification from the legal perspective was prepared according to the best knowledge of the Management Board, it is nevertheless impossible to guarantee that the classification is changed because of 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 made with respect to the Group's real estate classified as devoid of legal defects or having legal defects with potential for positive resolution. Neither can it be guaranteed that the Group's classification is not questioned in the future.

It is not certain that new reprivatization claims or other claims are not made in the future against the Group or the owners of the real estate included in the Group's portfolio at present. Nor is it certain that reserves established by the Group to satisfy such claims have been or will be estimated accurately.

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

In Poland, environmental protection regulations impose on owners obligations to reclaim land contaminated by dangerous or toxic substances. It should be pointed out that if the so called "old damage" to the environment is revealed (damage that occurred by 30 April 2007 and damage caused by actions completed before 30 April 2007) in areas owned by the Group, the Group may be obligated to reclaim the land, regardless of who caused the damage and when it was caused. Furthermore environmental protection regulations in Poland change and become increasingly stricter. These regulations often establish obligations regardless of whether the owner of a particular land plot knew about the presence of contaminating substances or whether the owner is responsible for the contamination or not. The owner's responsibility, in general, is not limited to such provisions of law and costs of possible investigation, removal and reclamation may turn out to be considerable. The presence of such substances in any of the Group's structures or facilities or liability for the failure to remove contamination with such substances may adversely affect the Group's opportunities to sell or lease such structures or facilities or to take out a loan using such properties as security. Also, the presence of dangerous or toxic substances in a property may make it impossible, delay or restrict development or reconstruction of such property.

In addition, considering that some of the Group's real estate was built several dozen years ago, some materials used during its construction are now regarded as threatening human health, life and safety, e.g. asbestos. In connection with this, in the future, the Group will be obligated to remove such material and may face the necessity to adjust conditions in its real estate to standards which are not dangerous to human health and life, if it turns out that prevailing safety standards are exceeded or if such standards have been made stricter by law. It cannot be excluded, either, that some of the Group's real estate items will require reclamation of contaminated soil or ground, involving its restoration to the state compliant with legal requirements or required quality standards.

Furthermore, environmental protection regulations are frequently amended. Future regulations may be unclear but requirements following from regulations concerning protection of the environment as well as human safety, health and life entail increasing expenditures, so the Group may be obligated to incur additional considerable costs in connection with new environmental requirements. Some of the Group's real estate may also require replacement of contaminated soil to ensure compliance with legal requirements and quality standards.

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

One important factor influencing the Group's activity is opinions about it on the market. The Group's activity is exposed to damage caused by spreading negative or slanderous or libelous information about the Group, especially questioning conditions prevailing in its properties and their safety, regardless of whether such information is justified or not. The very fact that negative information is distributed about the Group's real estate may exert adverse influence on the way the Group's activity and real estate are perceived, especially by target clients and lessees, potential partners in joint ventures or financial institutions granting financing to the Group. This may in turn exert material adverse influence on the Group's competitive position and its capacity to lease space and sell real estate effectively, especially developer residential projects and real estate held for sale in the future. Consequences of such a situation may include an increase in the number of vacancies in the Group or in the amount of the Group's costs earmarked for promotion activities. And the negative information itself with the resulting decrease in the degree of trust in the Group's capability to lease or sell real estate may have a significant adverse influence on the Group's activity, its financial standing 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 costs

Continuing the employment restructuring process in the Group conducted in 2011, the Group intends to take further actions aiming to optimize employee 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 that scope will be taken and that, if taken, bring expected results, or that the Group will be able to negotiate and agree with employees or their representatives benefits packages connected with employment restructuring in the Group acceptable for both parties. Some employees of the Group are subject to protection provided for in legal regulations because of, among others, age, maternity and discharging functions in trade unions, which has restricted and may restrict the Group's capacity 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 by the Group, exceeding 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. Because of the fact that the Group's employees belong to trade unions and considering the number of trade unions representing the employees' interests, the Group may face the necessity to hold negotiations with trade unions in the future, which may have a significant adverse influence on the Group's activity, its financial standing and operating result.

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

When managing assets, performing 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 delay to a significant extent or prevent the performance of the Group's strategy or its economic objectives as well as adversely influence its restructuring and integration. Considering the limited number of suitably qualified persons and statutory limitations concerning remuneration of Management Board members, which will be binding as long as the State Treasury's share in the Company exceeds 50% of the

Shares, the Group may have problems with acquiring or retaining qualified Management Board members.

Furthermore, the Group's future success depends partly on its capability to retain or employ senior managerial staff such as managers with many years of experience in real estate management, performance of investment programs, financing and internal auditing. If the Group loses or is unable to employ qualified specialists it needs, the shortage of employees may have adverse influence on the Group's ability to manage its assets effectively, to properly manage performance of its investment program and its activity. The Group may be also forced to propose higher remuneration and offer additional benefits to find or acquire such senior managerial staff.

Risk factors concerning Poland

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

The Group relies to a large extent on revenues from lease obtained from leased real estate and developer residential activity and on the value of its real estate, which depend on the economic situation, both global and in Poland, where the Group conducts business and holds all its assets. The Group's 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 tax and monetary policy

Companies from the Group are exposed to the risk connected with cyclical nature of the real estate market

Demand for the Group's leased office space and the number of the Group's developer projects (including residential ones) have varied in particular years, depending on, among others, on general macroeconomic factors, demographic changes relating to specific urban areas and market prices. Increasing demand, in principle, contributes to an increase in realized profit and a greater number of new projects as well as increased activity from the Group's competitors. Because of a relatively long period between taking a decision on starting the construction of a project and the time of its actual completion, partly resulting from a lengthy procedure of obtaining required permits from public administration authorities, commercialization of planned projects and the project construction time, there is a risk that when the project is completed, the market will be saturated and the investor will not be able to lease or sell the project with the expected profit level. After a period of improved economic situation on the market, there usually follows 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 in the period of boom in the market.

Furthermore, demand for residential real estate may depend on the government's policy in the area of co-financing or easier access to mortgage loans for certain clients for purchasing certain types of apartments. Any changes to the government's policy connected 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 credits and loans 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 and raise 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 requirements regarding the investment process, regulations on fire protection and safety, environmental regulations, provisions of labor law and those concerning limitations on the manner of using land. If the Group's projects and real estate do not comply with these regulations, the Group may be obligated to pay penalties or indemnification as provided for by law.

What is more, entry into force of stricter regulations to protect the environment, health and safety or executive procedures in Poland may result in considerable costs and liabilities for the Group, and facilities owned or used by the Group (or those that were owned or used by the Group in the past) may be subject to stricter supervision and audit than now. Also, amendments to regulations connected with developer residential activity aiming to protect the interests of consumers may adversely affect the Group's activity. In connection with the above, observing these regulations may contribute to considerable costs arising as a result of the necessity of removing, testing or reclaiming harmful substances and presence of such substances in the area of the Group's real estate may reduce its opportunities to sell properties or use them as security.

Adoption of new statutes, 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 influence on the Group's activity, its financial standing and operating result.

Amendments to provisions of tax law and its interpretation may have an adverse impact on the Group

Provisions of tax law are complicated and unclear and are amended frequently in an unpredictable way. The application of provisions of tax law is often accompanied by controversies and disputes, which are usually resolved only by administrative courts. In addition, there is no uniform practice of applying tax law and there are important discrepancies in the body of rulings in the area of tax law. Furthermore, provisions of tax law do not regulate explicitly rules defining possibility, manner and time of posting revenues and costs in the event of multiple events and legal acts and actual actions, for example, concerning restructuring activities. Nor do they clearly define taxation rules for other taxes, including goods and services tax and real estate tax.

Considering the above, one cannot rule out potential disputes with tax authorities, as a result of which tax authorities may question tax settlements of entities belonging to the Group with respect to non-lapsed tax liabilities and determine tax arrears for these entities.

In addition, companies from the Group have concluded transactions with related entities. Even though companies from the Group take all the measures required to maintain arms' length conditions for transactions with related entities, one cannot guarantee that there are no potential disputes with tax authorities about such transactions, with tax authorities assessing differently the terms and conditions and legal effects of transactions with related entities and, as a result, attempting to determine additional tax liabilities.

The Group may violate consumer protection regulations

The Group's activity, in particular concerning sales of residential real estate, must be conducted in compliance with relevant provisions of law in the area of consumer protection. The Group's actions in this area are subject to supervision on the part of the President of UOKiK with regard to assessing observance of, among others, regulations prohibiting the use of specific practices which violate common interests of consumers (such as presenting customers with inaccurate information, dishonest market practices and inclusion of forbidden provisions in model agreements). Pursuant to the Competition and Consumer Protection Act, the President of UOKiK has the right to issue a decision stating that provisions of an agreement violate collective interests of consumers and, as a result, may prohibit to use certain practices and impose pecuniary fines

(up to 10% of revenues obtained in the year preceding the year in which the fine was imposed) or may take other measures.

Competition protection authorities (or other legal authorities), as well as natural persons, may initiate court proceeding to declare a given provision of a model agreement as illegal. If a provision or model agreement has been declared to be forbidden on the basis of a legally binding verdict of the Court of Competition and Consumer Protection, such a provision or model agreement are entered to the register of abusive contract terms maintained by the President of UOKiK. As soon as a provision or model agreement have been entered to this register, they cannot be applied by any entity conducting activity in Poland.

In addition, clients may make claims, individually or within a class action, against companies from the Group in connection with using such clauses in agreements. One cannot guarantee that such claims are not made by clients of the Group and, even if the value for the given agreement is inconsiderable, then in view of the number and the total value of such potential claims, they may have an adverse influence on the Group's activity. Because of provisions regulating class actions, clients may decide to make claims as a group instead of individual claims, which may cause, to a significant extent, an increase in the number of cases brought by natural persons against the Group.

9. Pending proceedings before a court, an authority competent for arbitration proceedings or a public administration authority

As at 31 December 2013 and as at the date of preparation of this report, there were no pending proceedings against companies from the Group before a court, an authority

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

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

competent for arbitration proceedings or a public administration authorities, whose individual or joint value is at least 10% of the parent company's equity.

10. Events significantly affecting the Group's activity and financing in the financial year and after its end until the date of approving the financial statements.

10.1. Significant agreements concluded, including agreements concluded between shareholders

In October 2013, the Company entered into a joint venture agreement relating the Świętokrzyska Project (*"Joint Venture Agreement Relating to the Świętokrzyska Project"*) with Project Development Poland 3 BV from Hochtief Group and the development agreement for the phase a and phase b (*"Development Management Agreement"*) with Hochtief Development Poland Sp. z o.o. The subject of the first of the agreements is to define the terms of cooperation and roles of partners in performance of the project i.e. a modern A class office building at Świętokrzyska 36. As part of the development agreements, the parties agreed that Hochtief

Development Poland Sp. z o.o. as Project Manager will coordinate activities related to the preparation and implementation of the Project. Świętokrzyska project planned by the Company is consistent with the business strategy of the PHN Capital Group, which implies a focus on commercial real estate with a significant share of modern A class office spaces. The project aims to provide first-class facility that will provide a stable source of income in the long-term.

In October 2013, the Group companies: Warszawski Holding Nieruchomości S.A., Budexpo Sp. z o.o. and Polski Holding

Nieruchomości Spółka akcyjna spółka komandytowo-akcyjna, entered into an agreement with General Property Sp. z o.o. with its registered office in Warsaw for technical maintenance and administration of the estate in the Group's portfolio. Agreement is aimed at to optimizing operations relating to administration and maintenance of commercial real estates through the rendering these services on arm's length basis. The agreement will result in a management

structure change, a reduction in employment in the Group by 26 full time employees and several million savings in 40 months perspective in the area of property maintenance.

In December 2013, Warszawski Holding Nieruchomości S.A. signed a contract with Grant Thornton FPA Outsourcing Sp. z o.o. for accounting and payroll services to be rendered to the Group companies. (except Dalmor S.A.).

10.2. Significant transactions executed by the parent company or its subsidiary with related entities on non-market terms and conditions

Transactions between related entities in the Group were concluded on terms and conditions not diverging from arms' length terms.

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

In the year ended 31 December 2013 and 31 December 2012, no advances, loans, guarantees and warranties were granted to Management Board and Supervisory Board and their relatives and no agreements binding mentioned personnel to render services to the benefit of Polski Holding Nieruchomości S.A. and its' subsidiaries were contracted. As at 31 December 2013 and 31 December 2012 no loans

were granted by the companies of the Group to the Management Board and Supervisory Board and their relatives.

In the year ended 31 December 2013 the Group revenues incurred from the Management Board and Supervisory Board and their relatives amounting to PLN 0.1m.

10.4. Credit and loan agreements concluded and terminated in the financial year

In 2013 and by the date of this report, companies from the Capital Group did not conclude or terminate credit and loan agreements with entities from outside of the Group.

10.5. Loan granted in the financial year

In 2013 and by the date of this report, companies from the Capital Group did not grant loans from entities outside of the Group.

10.6. Guarantee and surety received in the financial year

In 2013 and by the date of this report, companies from the Capital Group did not grant or receive any guarantee or sureties.

10.7. Issue of securities

In 2013 companies from the Capital Group did not issue securities to be subscribed for by entities from outside of the Capital Group.

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

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

structure with a description of changes made in 2013 is presented in point 2 this report.

10.9. Purchase of own equity shares

In the financial year and after its end until the date of preparation of the financial statements, Polski Holding Nieruchomości S.A. did not purchase its own equity shares.

11. Expected development of the Group

Description of opportunities for development

The Group focuses its asset management activity on actions aiming to attain the strategic objective of achieving higher recurring net operating profit. The objective will be attained by proper management of the basic real estate portfolio generating revenues from lease and a continued growth of the value of the real estate portfolio as a result of the investment program performance.

The Group's medium- and long-term strategic objective is to increase the net operating profit generated by the Group's target investment portfolio, to market levels.

The operating performance of the strategy is effected by extending lease agreements concluded on favorable terms and conditions. The Group attempts to conclude lease agreements for at least 5 years with respect to selected properties to increase the database of lessees and support uninterrupted lease term. Real estate maintenance expenses are gradually transferred in part to lessees. The Group encourages the present lessees to lease more space. Repairs and modernizations of space are performed, which raises its standard, to retain the present lessees and acquire new ones. The Group aims at acquiring new stable lessees, especially corporate ones. Within restructuring, there are more auxiliary services provided by specialized external entities in the area of ongoing management and maintenance of real estate and civil structures.

The Group aims to improve further its operating effectiveness by continuing restructuring activities to optimize the Group's corporate structure and cost basis.

The Group started the performance of a corporate structure reorganization program, within which there will be a reduction of the deferred income tax liability, calculated in financial statements on the basis of the difference between depreciated purchase cost and the real estate book value as at the reporting date.

The Group will continue to pursue a conservative strategy for financing the activity by earmarking considerable own funds to finance the activity, continue the model of obtaining external financing and 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

According to the adopted strategy, the Group's investment program includes now about a dozen commercial projects involving development of land plots or replacement of

existing civil structures with new investment projects. In 2013, in accordance with the approved schedule, portion of real estates intended for commercial projects has been sold to SPVs. Purchase of properties was financed through the issuance of bonds by the SPVs.

The following are the most important current and planned investments, which are essential for the Group's operations. It should also be noted that current investments of PHN SA also include the modernization of owned real estates.

At present, the following projects are performed:

Office Building Foksal 10 A in Warsaw – at st. Foksal 10A in Warsaw, on a land lot of the area of about 1.290 m², a modern office building is constructed, of A class standard and the planned gross lease space (GLA) of 3.342 m². The buildings will have overground seven stories and one underground story for z 17 parking places. The property was sold to the PHN Foksal Sp. z o.o.

Logistic and Industrial Park – Bierutowska in Wrocław - on a part of the investment land located on ul. Bierutowska in a north-eastern region of the city of Wrocław, construction of a modern storage and logistic facility called SEGRO Industrial Park Wrocław is performed. In an area of 10.6 ha, facilities are built with planned GLA of approx. 40.000 m². So far, the I stage was completed of approximately 19.500 m², within which, lease agreements were concluded for approximately 16.100 m². Permission was obtained for the construction of the II stage of approximately 19.000 m². The owner of the property is Wrocław Industrial Park Sp. z o.o.

Rakowiecka 19 in Warsaw - an existing residential building used for office purposes at Rakowiecka 19 street in Warsaw's district of Mokotów was converted to a modern office building of A class standard and the total gross leased space (GLA) of approx. 1.697 m². After the reconstruction, the building has four overground stories and one underground level.

In January 2014 permission was obtained allowing the usage of the building. Perpetual usufructuary of the property is WHN.

Office Building – Domaniewska 37 C, Warsaw - the Group plans to build, on a land plot of the area of approx. 1.3 ha at Domaniewska 37C street a 7-storey office building of class A standard and gross leased area (GLA) of approx. 27.117 m². The building project consists of two segments with separate entrance halls and circulation routes. Legally valid permission for the construction was obtained, which began in

January 2014. The property was sold to the PHN SPV 2 Sp. z o.o.

Projects at the preparation stage:

Office Building PHN Tower, Świętokrzyska, Warsaw - in place of the present developed real estate at Świętokrzyska street in Warsaw, on a land plot of the area of approx. 0.6 ha, Group plans to build a modern high-rise office building of class A standard. Proceedings were conducted in the selection of a partner for a joint realization of the project. On 3 October 2013 the documentation relating to the joint venture was signed with the companies of the Hochtief group. The property was sold to the PHN SPV 1 Sp. z o.o.

Logistics park in Parzniew near Pruszków - at investment land with an area of approximately 22 ha located in Parzniew, the Group is planning to build a warehouse - in JV formula in 5 stages. A joint venture partner was selected. Preparations for the signing of appropriate agreements with the selected partner are underway. The property was sold to the PHN SPV 4 Sp. z o.o.

Office buildings or a shopping center – Wilanowska 372, Warsaw - on a land plot of the area of approx. 1.29 ha at Aleja Wilanowska 372, construction of two 6-storey office buildings is planned in stages; the A class buildings will have the total gross lease area (GLA) of approx. 27.585 m². An alternative solution, requiring to change the local area development plan, is to build a retail and services building of the gross leased area (GLA) of approx. 30.000 m². The property was sold to the PHN SPV 3 Sp. z o.o.

12. Assessment of the feasibility of the planned projects

In principle, the Group plans to perform the most important commercial projects within joint ventures with partners. It is predicted that in such cases capital expenditures connected with particular commercial projects will be incurred by the Group and its joint venture partners. The Group wants to perform some of the projects on its own. These projects will be financed from own funds or external financing sources

13. Contracts with Management Board members defining payment of severance pay in the event of their resignation or dismissal from the position with 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 of the monthly salary in the event of their resignation or dismissal from the position with no important reason. In addition Management

Lućmierz near Zgierz, retail and services center - on land plots of the area of approx. 10 ha (being a part of real estate of the area of approx. 44 ha), it is planned to build retail and service facilities. The gross lease area (GLA) will amount to approx. 40.000 m². The procedure of changes in the project study and in the local development plan along with bringing the infrastructure has begun. The property was sold to the PHN SPV 5 Sp. z o.o.

Lewandów, retail and services center, Warsaw - the Group plans to build, on some of the land plots of the total area of 25.4 ha, retail and services facilities of the total gross lease area (GLA) of approx. 60.000 m². The project will be divided into several stages. At present, part of the real estate is leased to: a McDonald's restaurant. The property was sold to the PHN SPV 7 Sp. z o.o.

Dalmor, Port Rybacki- the Group plans to build, on a land plot of the area of approx. 10.13 ha, a retail and services complex with office space along with residential premises and auxiliary services. The real estate will be located in the area of Molo Rybackie, near Gdynia Harbor in accordance with applicable local development plan. On 12 February 2014 the Issuer's subsidiary - Dalmor SA. has signed a letter of intent

with the development company with recognized market position on the performance of the joint venture project

Within the Group, the implementation of selected commercial projects that have been brought to special purpose vehicles will take place in the joint venture formula or on their own.

(e.g. bank loans, issue of bonds). An external financing source will be selected each time depending on the performed investment project. Also funds coming from the sales of real estate will constitute one of the sources of own capital for financing new investment projects.

The Group has full capability to perform the planned projects.

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

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14. Remuneration of Management Board and Supervisory Board members

Remuneration of Management Board and Supervisory Board members of Polski Holding Nieruchomości S.A. for 2013 was as follows:

Remuneration of Management Board members for 2013:

Full name	Remuneration received from the parent company	Remuneration received from subsidiaries
Artur Lebieckiński	127 776.65	49 491.88
Wojciech Papierak	548 785.83	322 870.60
Paweł Laskowski-Fabisiewicz	388 779.22	273 558.56
Rafał Krzemień	387 889.31	254 314.05
Sławomir Frąckowiak	388 779.22	254 229.00
Włodzimierz Stasiak	381 806.60	214 424.14
Total	2 223 816.83	1 368 888.23

Remuneration of Supervisory Board members for 2013:

Full name	Remuneration received from the parent company
Józef Banach	41 454.96
Izabela Felczak-Poturnicka	41 454.96
Grzegorz Gajewski	33 192.38
Marzena Kusio	9 612.74
Artur Lebieckiński	8 249.87
Antoni Leonik	10 363.74
Marcin Marczuk	41 454.96
Mateusz Matejewski	41 454.96
Krzysztof Melnarowicz	21 245.67
Paweł Wroński	32 507.42
Total	280 991.66

Supervisory Board members of PHN S.A. did not receive remuneration from other companies from the Capital Group.

15. Employee stock ownership

The Group does not operate employee share program.

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

Full name	Shares of the parent company		Shares of subsidiaries	
	Number of shares	Nominal value of shares (PLN)	Number of shares	Nominal value of shares (PLN)
Rafał Krzemień	461	461	4 604	4 604
Total	461	461	4 604	4 604

Number of shares held by managers and supervisors are given according to the received confirmations as at 18 February 2014. In the period from 7 November 2013 until 18 February 2014 number of shares held by managers and

supervisors did not change. Other Members of the Management Board and the Supervisory Board as at 18 February 2014 did not hold shares of companies of the Group.

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

The Management Board of Polski Holding Nieruchomości S.A. is not aware of any agreements that in the future may affect the shareholding structure.

18. Agreements concluded with an entity authorized to audit financial statements

Information about agreements concluded with an entity authorized to audit financial statements has been presented in note 31 to the financial statements.

19. Factors influencing financial and operating results of the Group

The following factors influenced and will influence financial and operating results of the Group:

- ✓ economic situation in Poland,
- ✓ properties market in Poland,
- ✓ regulatory environment,
- ✓ factors influencing lease revenues,
- ✓ factors influencing revenues from developer business,
- ✓ some types of activity of legal predecessors,
- ✓ properties valuation,
- ✓ changes to the composition of the Group's properties portfolio,
- ✓ legal status of the Group's properties,
- ✓ costs of the real estate maintenance and capital expenditures connected with modernization,
- ✓ restructuring of the Group,
- ✓ capital expenditures connected with performance of investment programs and developer residential projects,
- ✓ income tax,
- ✓ Group structure changes,
- ✓ employment costs and costs of third party services and
- ✓ compensations for expropriated properties.

Appendix no. 1: Statement about the use of corporate governance principles

The Management Board of Polski Holding Nieruchomości S.A. (hereinafter referred to as the "Issuer" or the "Company"), pursuant to § 91 sec. 5 item 4 Regulation issued by the Minister of Finance on 19 February 2009 regarding current and periodic information published by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state (hereinafter referred to as the "Regulation"), hereby presents a statement about the use of corporate governance principles.

1. The set of corporate governance principles applied to the Company and the place where the set of the principles is publicly available

As from 13 February 2013 Polski Holding Nieruchomości S.A. is a public company listed on the Stock Exchange in Warsaw SA and applies the principles of corporate governance.

The text of the set of principles is found in the document "Good Practices of WSE Listed Companies", constituting an Attachment to Resolution no 19/1307/2012 adopted by the WSE Supervisory Board on 21 November 2012, applicable from 1 January 2013.

The text of the set of principles is publicly available on the Warsaw Stock Exchange website on corporate governance at www.corp-gov.gpw.pl.

2. The extent to which the Company deviated from provisions of the set of corporate governance principles as referred to in item 17.1. and explanation of the reasons for the deviation

The Company aims at ensuring the greatest possible transparency of its actions, appropriate quality of communication with investors and protection of shareholders' rights, also in issues not regulated by law. In connection with this, the Company took necessary actions to completely observe the principles included in the Good Practices of WSE Listed Companies.

In 2013 Company's Management Board used all the corporate governance principles in compliance with the document "Good Practices of WSE Listed Companies" except for the following:

- ✓ Recommendation 5 – to the extent that it says that the Company should have a remuneration policy and rules for defining it.

The Company does not have a remuneration policy or rules for defining it for Supervisory Board and Management Board members. But it takes into consideration the possibility of drawing up such a policy and rules in the future. According to the Articles of Association, remuneration rules and amounts for Management Board members in the period when the State Treasury has over 50% Shares in the Company's equity are defined by the Shareholder Meeting. On the other hand, when the State Treasury has exactly 50% Shares in the Company's equity or less, remuneration rules and amounts for Management Board members are determined by the Supervisory Board.

- ✓ Recommendation 9 – to the extent that it refers to ensuring by the Company a balanced proportion of men and women in management and supervisory functions.

To date, the Company has not ensured a balanced proportion of men and women in the Management Board and the Supervisory Board. In the Management Board consisting of five persons, there are no women, while in the seven-person Supervisory Board, there is two women only, Izabela Felczak-Poturnicka, who is vice-president of the Supervisory Board and Marzena Kusio, who is Secretary of the Supervisory Board. The Company supports the above recommendation but the decision about the composition of the Supervisory Board is taken by Shareholders at the Shareholder Meeting. The Company pursues a policy of employing competent, creative persons with appropriate experience and education.

- ✓ Recommendation 12 – in providing shareholders the possibility to perform in person or by proxy voting right during the general meeting, outside the event venue of the General Meeting by means of electronic communication.

The Company has not yet decided to introduce procedures to ensure shareholders the possibility to participate in the general meeting, outside the event venue of the General Meeting by means of electronic communication.

- ✓ Good Practice II.9a – to the extent that it refers to publishing on the Company's website a record of the Shareholder Meeting in audio or video format.

In 2013, the Company published on its website the records of the proceedings of the General Meetings in audio form. The Company is considering the possibility of placing records of the proceedings of the General Meetings in the video form at a later date.

- ✓ Good Practice III.8 – to the extent that it refers to the existence of committees operating within the Supervisory Board, whose tasks and operation should comply with Annex I to the European Commission Recommendation of 15 February 2005 on the role of non-executive directors.

In the Company, committees indicated in Annex I to the European Commission Recommendation of 15 February 2005, i.e. Appointments Committee, Remuneration Committee. Pursuant to the Articles of Association, the Supervisory Board may appoint committees other than the audit committee, in particular a committee for appointments and remuneration, and detailed tasks and rules for setting up and operation of these committees are defined by the Supervisory Board Bylaws.

The Company predicts that the Supervisory Board Bylaws will provide for the duty on the part of a candidate for the Supervisory Board or a Supervisory Board member to submit

to the Company, immediately after being appointed, a written statement about satisfying the criteria of independence as defined in Annex II to the European Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors and on the committees of the (supervisory) board, and to inform the Company immediately if the situation in this regard changed during that person's term of office.

If implementing corporate governance principles requires that amendments should be made to the Company's corporate documentation (Articles of Association, Management Board Bylaws, Supervisory Board Bylaws), the Management Board shall initiate necessary actions in this direction. The Management Board also intends to recommend the Supervisory Board and the Shareholder Meeting to observe all the principles of the Good Practices of WSE Listed Companies with the exceptions discussed above. It should be emphasized that a decision to observe some of the principles defined in the Good Practices of WSE Listed Companies will be made by the Company's shareholders and the Supervisory Board.

3. The main features of the internal control and risk management systems applied in the Group with reference to the process of drawing up financial statements and consolidated financial statements

The internal control and risk management system with reference to the process of drawing up non-consolidated and consolidated financial statements consists of internal regulations, procedures and tools applied in the Group..

The most important regulations and procedures in the above scope include accounting policies of companies from the Group, taking into consideration accounting principles common for the entire Group. Other principles applied in the Group include rules for closing books and drawing up financial statements, taking into account schedules, control procedures and models of consolidation packages. Coordination of accounting and reporting processes is performed by a central unit dealing with accounting services for companies of the Group and a unit dealing with consolidation of financial statements. Such organization makes it possible to standardize and optimize the processes. The Group's financial reporting is created on the basis of records entered to a single ERP system, used by the overwhelming majority of entities..

For valuation of assets, a decision model is applied to real estate valuation as at the balance sheet date and a procedure of legal due diligence for real estate.

4. Shareholders holding substantial blocks of shares, directly or indirectly

The shareholders holding directly or indirectly through subsidiaries, at least 5% of the total number of votes at the General Meeting of Polski Holding Nieruchomości S.A., according to the number of shares held and their percentage share in the share capital as at 26 February 2014, as disclosed in the notices provided to Company based on art. 69 of the Act on Public Offering, Conditions relating to the Introduction of Financial Instruments in Public Companies, include:

Shareholders*

	Number of shares	% of votes at Shareholder Meeting
State Treasury	32 538 003	71.32%
Aviva OFE	2 188 915	4.80%
Others	10 895 263	23.88%
Total	45 622 181	100.00%

* including series C shares related to the exchange of employee shares: (i) 1,107,223 shares of series C released on 18 September 2013, (ii) 108,721 shares of series C released on 6 December 2013, (iii) 1,022,234 shares C series released on 14 February 2014.

5. Holders of securities carrying special inspection rights.

The Articles of Association grant special rights to the sole shareholder – the State Treasury:

✓ § 15 sec. 6 of the Articles of Association

„In the period in which the State Treasury holds over 50% of the total number of Shares in the Company's share capital, for the entire period when the relevant requirements follow from absolutely binding provisions of law, Management Board members are appointed by the Supervisory Board after qualification proceeding pursuant to the Regulation concerning qualification proceedings for management board members of certain commercial companies.”

✓ § 25 sec. 2 of the Articles of Association

„ In the period in which the State Treasury holds over 50% but less than 100% of the total number of Shares in the Company's share capital, the rules for remunerating and remuneration amounts of Management Board members, including the CEO, are defined by the Shareholder Meeting, subject to provisions of the Act on Remunerating Persons Managing Certain Legal Entities.”

✓ § 32 sec. 2 of the Articles of Association

„The State Treasury, represented by the minister competent for matters of the State Treasury, is entitled to appoint and dismiss, by a written statement, one Supervisory Board member for the period in which the State Treasury is the Company's shareholder. Regardless of the above, the State Treasury preserves the right to elect the remaining Supervisory Board Members at a general meeting. This provision is in force until the date that the Company's shares are admitted for trading on a regulated market.”

✓ § 32 sec. 7 of the Articles of Association

„A Supervisory Board member submits resignation to the Management Board in writing to the address of the Company's seat and for information of the State Treasury Minister as long as the State Treasury is the Company's shareholder.”

✓ § 43 sec. 4 of the Articles of Association

„A shareholder or shareholders representing at least one twentieth of the share capital may demand that particular matters are put on the agenda of the nearest Shareholder Meeting. This right is also vested in the shareholder – the State Treasury as long as it is the Company's shareholder.”

6. Restrictions on exercising voting rights

There are no restrictions on exercising voting rights which would follow from the Issuer's Articles of Association or other internal regulations.

7. Restrictions on assigning the ownership title to the Company's securities

1. Shares of Warszawski Holding Nieruchomości S.A., Intraco S.A. Budexpo Sp. z o.o. cannot be traded before 16 July 2013, except for shares acquired by employees discharging management functions, which cannot be traded before 16 July 2014.
2. Shares of Dalmor S.A. cannot be traded before 29 December 2013, except for shares acquired by employees discharging management functions, which cannot be traded before 29 December 2014.
3. The rights resulting from holding subscription warrants may be exercised not earlier than after the elapse of 12 months from the date of subscribing for the warrants.
4. The deadline for exercising the rights resulting from subscription warrants is 10 years from the date of adopting the Issue Resolution of 11 October 2011.

5. Disposal of subscription warrants, which includes selling or encumbering them, requires the Company's consent given in writing.

8. Principles regarding appointing and dismissing management staff and a description of its powers

The Management Board may be composed of from one to six members, including the CEO, and in the case of the Management Board to which more than one person is appointed, Deputy CEO and other Management Board members, elected for the same term of office by the Supervisory Board. It is possible to change the number of the members during the term of office. The term of office for Management Board members is three years.

The CEO manages the work of the Management Board, convenes and presides over Management Board meetings. The CEO may 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 sec. 2 and § 15 sec. 6 of the Company's Articles of Association. Each of the Management Board members may be dismissed or suspended by the Shareholder Meeting or the Supervisory Board. The Supervisory Board may suspend a Management Board member for material reasons. A Management Board member submits resignation to the Supervisory Board in writing to the address of the Company's seat and for information of the State Treasury Minister as long as the State Treasury is the Company's shareholder.

Powers of the Management Board

The Management Board transacts the Company's business and represents the Company in all acts in court and out of court. Any matters connected with transacting the Company's business, not reserved by law or provisions of the Articles of Association for the Shareholder Meeting or the Supervisory Board, belong to the powers of the Management Board. All the Management Board members are obligated and authorized to conduct the Company's matters jointly. To the extent that it is not required to adopt a Management Board resolution, each Management Board member may conduct the Company's matters on his or her own, in the scope determined in the Management Board Bylaws.

The Management Board is obligated to submit at least quarterly reports to the Supervisory Board about material events in the Company's activity. The report will also include information on the Company's revenues, costs and financial

result. The Supervisory Board may define a detailed scope of the above reports..

To make declarations on behalf of the Company, two Management Board members are required acting jointly or one Management Board member jointly with a general proxy. If the Management Board consists of one person, one Management Board is authorized to make declarations on behalf of the Company. Appointing a general proxy requires adopting a unanimous resolution by all the Management Board members. Any Management Board member may dismiss a proxy. Operating procedures of the Management Board are defined in detail by the Management Board Bylaws, defined by the Management Board and approved by the Supervisory Board. Also, persons acting on the basis of powers-of attorney granted by the Management Board pursuant to provisions of the Civil Code are authorized to make declarations and sign agreements and assume obligations on behalf of the Company.

9. Principles for amending the Company's Articles of Association

The Issuer's Articles of Association may be amended by a resolution adopted by the Shareholder Meeting (§ 48 sec. 5 item 4 of the Articles of Association). The resolution is passed by the majority of three fourth of the votes. A motion to amend the Articles of Association should be put forward with justification and a written opinion of the Company's Supervisory Board (§ 49 of the Articles of Association). The duty to submit to the Supervisory Board for opinion matters to be objects of resolutions adopted by the Shareholder Meeting follows also directly from the provision of § 8 sec. 1 item 1.15 of the Company's Supervisory Board Bylaws, adopted by that body's resolution no. 41/10/2012 of 11 October 2012.

The Issuer's Articles of Association may be amended by a resolution adopted by the Shareholder Meeting (§ 48 sec. 5 item 4 of the Articles of Association). The resolution is passed by the majority of three fourth of the votes. A motion to amend the Articles of Association should be put forward with justification and a written opinion of the Company's Supervisory Board (§ 49 of the Articles of Association). The duty to submit to the Supervisory Board for opinion matters to be objects of resolutions adopted by the Shareholder Meeting follows also directly from the provision of § 8 sec. 1 item 1.15 of the Company's Supervisory Board Bylaws, adopted by that body's resolution no. 41/10/2012 of 11 October 2012.

10. Composition of managing and supervisory bodies of the Company and their committees and a description of

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their operations, and changes to it during the financial year.

Term of the office of the Company's Management Board and Supervisory Board of PHN S.A. is three years. The first term ends in 2014.

On 1 January 2013, the Management Board was composed of five members:

Wojciech Papierak – President of the Management Board

Paweł Laskowski-Fabisiewicz – Vice-president of the Management Board

Rafał Krzemień – Management Board Member

Sławomir Frąckowiak – Management Board Member

Włodzimierz Stasiak – Member of the Board in charge of finance

On 28 August 2013 Mr. Wojciech Papierak resigned from the position of the President of the Management Board of Polski Holdingu Nieruchomości S.A.. Accordingly, the Supervisory Board adopted a resolution on 6 September 2013, which became effective on 7 September 2013, delegating Mr. Artur Lebieckiński - Member of the Supervisory Board to temporarily perform the duties of the President of the Management Board for a period not longer than 3 months. Then, the Supervisory Board of the Company based on the resolution adopted on 27 November 2013, on 28 November 2013, appointed Mr. Artur Lebieckiński as the President of Board of Directors. Accordingly, on 27 November, 2013, Mr. Artur Lebieckiński resigned from the Supervisory Board of the Issuer.

As of 1 January 2013, the composition of the Supervisory Board was as follows:

Józef Banach – Chairman of the Supervisory Board

Izabela Felczak-Poturnicka – Secretary of the Supervisory Board

Mateusz Matejewski – Supervisory Board Member

Marcin Marczuk – Supervisory Board Member

Grzegorz Gajewski – Supervisory Board Member

Paweł Wroński – Supervisory Board Member

Annual General Meeting of Polski Holding Nieruchomości on 26 June 2013 has appointed Mr. Krzysztof Melnarowicz and Mr. Artur Lebieckiński to the Supervisory Board. On 1 October 2013, the Extraordinary General Meeting of the Company changed the composition of the Supervisory Board by dismissing Mr. Grzegorz Gajewski and Mr. Paweł Wroński at the same time, appointing Mr. Antoni Leonik as a Member

of the Supervisory Board. Subsequently, on 8 October 2013 Marzena Kusio was appointed as a Member of the Supervisory Board on the basis of the statement of the Ministry of State Treasury, acting in accordance with § 32 paragraph. 2 of the Articles of the Company. On 27 November 2013 Mr. Artur Lebieckiński as a result of appointment to the post of the President of the Management Board, resigned from the post of the Supervisory Board Member of the Issuer.

Description of the operation of management bodies

Any matters going beyond the Company's ordinary activity require a Management Board resolution.

In particular, the following actions require a Management Board resolution:

- 1) defining the Management Board Bylaws,
- 2) defining Organizational Bylaws,
- 3) setting up and liquidating divisions,
- 4) appointing a general proxy,
- 5) taking out loans and credits,
- 6) adopting annual material and financial plans and long-term strategic plans,
- 7) acquiring (subscribing for) or disposing of the following asset components by the Company:
 - (a) real estate, perpetual usufruct or shares in real estate,
 - (b) components of property, plant and equipment other than real estate,
 - (c) shares, ownership interests or other titles of participation in companies of the value exceeding EUR 200,000.00,
- 8) encumbering asset components satisfying the criteria referred to in item 7 above with limited property rights for an amount (security) exceeding EUR 200,000.00,
- 9) concluding by the Company agreements other than above or assuming obligations other than above of the value exceeding EUR 200,000.00,
- 10) matters which are submitted by the Management Board to be reviewed by the Supervisory Board or the Shareholder Meeting,
- 11) defining the manner of exercising the voting right at a general meeting or shareholder meeting of companies in which the Company holds shares or ownership interests, payment of an advance for the expected dividend.

Preparation of the plans referred to in item 6 and submitting them to the Supervisory Board for approval is the Management Board's duty. The Management Board may also adopt a resolution on any other matter proposed at a

meeting of the Management Board following the appropriate procedure defined in the Management Board Bylaws.

Management Board members may participate in adopting Management Board resolutions, casting their votes in writing through another Management Board member. Casting a vote in writing must not concern matters to put on the agenda at a Management Board meeting. The Management Board may adopt resolutions by a written procedure or using means of remote direct communication.

Operation of supervisory bodies

Rules of operation of the Supervisory Board, apart from universally prevailing provisions of law, are regulated by the Company's Articles of Association and the Supervisory Board Bylaws. The Supervisory Board exercises constant supervision of the Company's activity in all its areas of operation.

In particular, powers of the Supervisory Board include:

- 1) evaluation of the Management Board's report on the Company's activity and financial statements for the previous financial year with regard to their compliance with accounting ledgers and the factual status. This also refers to the Group's consolidated financial statements and a report on the Group's activity,
- 2) evaluation of the Management Board's motions on distribution of profit or coverage of loss,
- 3) submitting to the Shareholder Meeting a written report from the results of the actions referred to in items 1) and 2),
- 4) selecting an auditor to review the financial statements,
- 5) defining the scope and deadlines for submitting by the Management Board the Company's and the Group's annual material and financial plans and long-term strategic plans,
- 6) approving the Company's and the Group's long-term strategic plans,
- 7) approving the Company's and the Group's annual material and financial plans,
- 8) adopting the Supervisory Board Bylaws,
- 9) accepting uniform text of the Company's Articles of Association, prepared pursuant to provisions of § 57 sec. 3,
- 10) approving the Management Board Bylaws,
- 11) approving the Organizational Bylaws,
- 12) approving rules for remunerating members of management and supervisory bodies of companies from the Group.

The powers of the Supervisory Board include giving consent to the Management to the following:

- 1) acquiring (subscribing for) or disposing of the following asset components by the Company:
 - a) real estate, perpetual usufruct or shares in real estate,
 - b) components of property, plant and equipment other than real estate,
 - c) shares, ownership interests or other titles of participation in companies of the value exceeding EUR 200,000.00,
- 2) encumbering asset components satisfying the criteria referred to in item 1 above with limited property rights for an amount (security) exceeding EUR 500,000.00,
- 3) issuing bills of exchange,
- 4) concluding by the Company agreements to make donation or exempt from debt and other agreements unconnected with the object of the Company's business as defined in the Articles of Association, especially sponsorship agreements whose value exceeds an equivalent of EUR 5,000.00,
- 5) granting by the Company sureties and guarantees to entities other than companies from the Group,
- 6) concluding by the Company agreements other than above or assuming obligations other than above of the value equal or exceeding EUR 500,000.00, except for concluding by the Company agreements with companies from the Group, which does not require such consent;
- 7) payment of an advance for the expected dividend.

Pursuant to the Articles of Association, the Supervisory Board is composed of five to nine members, who are appointed by the Shareholder Meeting for the same three-year term of office. Pursuant to § 32 sec. 2 of the Articles of Association, the State Treasury will be entitled to appoint and dismiss, by a written statement, one Supervisory Board member for the period in which the State Treasury is the Company's shareholder.

Regardless of the above entitlement, the State Treasury also preserves the right to elect the remaining Supervisory Board Members at a general meeting. The above rights of the State Treasury came into force from the moment of admitting the Company's shares for trading on a regulated market.

The Chairman of the Supervisory Board is elected by the Shareholder Meeting. Supervisory Board Members at their first meeting elect from their own group Vice-Chairman and Secretary of the Supervisory Board. The number of

Supervisory Board Members is determined by the Shareholder Meeting.

Pursuant to § 32 sec. 4 of the Articles of Association, when mandates of some Supervisory Board Members expire (for other reasons than dismissal), is composed of a lower number of members than determined by the Shareholder Meeting, but of at least five members, then such Supervisory Board is capable of adopting valid resolutions.

The Supervisory Board holds meetings at least once in two months. For resolutions of the Supervisory Board to be valid, it is required that all its members have been invited and at least half of them are present at the meeting, including the Chairman or Vice-Chairman of the Supervisory Board. Resolutions of the Supervisory Board are passed by absolute majority of the votes. In the event of the equal number of votes for and against, the vote of the Chairman of the Supervisory Board prevails.

Supervisory Board members may participate in adopting Supervisory Board, resolutions, casting their votes in writing through another Supervisory Board member. Casting a vote in writing may concern matters to put on the agenda at a Supervisory Board meeting.

The Supervisory Board may adopt resolutions by a written procedure or using means of remote direct communication, subject to Art. 388 § 4 of the Commercial Company Code, except for election of Vice-Chairman and Secretary of the Supervisory Board, appointment of a Management Board Member and dismissing and suspending such persons. Adopting a resolution by this procedure requires a justification and prior presentation of the draft resolution to all the Supervisory Board members. Resolutions adopted through such procedure are presented at the nearest Supervisory Board, giving the results of the voting.

Audit Committee

The Supervisory Board appoints an Audit Committee, composed of at least three Supervisory Board members, at least one of whom should fulfill the condition of independence as defined in Art. 86 sec. 5 of the Auditors Act and hold qualifications in accounting or financial auditing. The Supervisory Board composed of five members may perform tasks of an audit committee.

The Supervisory Board may also appoint other committees, in particular a committee for appointments and remuneration. Detailed tasks and rules for setting up and operation of these committees are defined by the Supervisory Board Bylaws.

On 16 January 2013, the first meeting of the Company's Supervisory Board was held, at which a resolution was

adopted to appoint the Supervisory Board's Audit Committee and to elect members of the committee. As at that date, the committee consisted of three Supervisory Board members: Józef Banach, Izabela Felczak-Poturnicka and Marcin Marcuk. On 5 July 2013, under the resolution of the Supervisory Board Mr Artur Lebiecki was appointed as a member of the Audit Committee but due to entrusting him the position of the CEO, on 27 November 2013 he resigned from the position of the member of the Supervisory Board.

Józef Banach satisfies the criteria following from Art. 86 sec. 4 of the Auditors Act..

The tasks of the Audit Committee include in particular:

1. supervision of organizational cells of internal audit;
2. monitoring the process of financial reporting;
3. monitoring the effectiveness of internal control, internal audit and risk management systems;
4. monitoring the performance of the activity of financial audit;
5. monitoring the independence of the auditor and the entity authorized to review financial statements, in this case provision of services other than financial auditing to the Company;
6. recommending to the Supervisory Board an entity authorized to review financial statements to perform an audit.

11. Principles of operation of the Shareholder Meeting and its essential powers as well as a description of its rights and the manner of exercising them

The Shareholder Meeting operates pursuant to the Articles of Association and the Shareholder Meeting Bylaws, defining in particular rules of operation for the Shareholder Meeting, holding meeting, adopting resolutions. The Shareholder Meeting Bylaws are available on the Issuer's website. The Shareholder Meeting may meet as ordinary or extraordinary. Shareholder Meetings may be held at the Company's seat in Warsaw or in some other place in the territory of the Republic of Poland:

- 1) at its own initiative,
- 2) upon a written motion of the Supervisory Board,
- 3) on a written demand of a shareholder or shareholders on the conditions defined in relevant provisions of the Commercial Company Code,
- 4) on a written demand of the State Treasury, until is the Company's shareholder.

Powers of the Shareholder Meeting include in particular:

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- 1) reviewing and approving the Management Board's report on the Company's activity and financial statements for the previous financial year;
- 2) distribution of profit or coverage of loss;
- 3) granting a discharge to Management Board and Supervisory Board members on the performance of their duties;
- 4) decisions on claims for redress of damage caused upon formation of the Company or its management or supervision;
- 5) disposal or tenancy of the Company's enterprise or its organized part and establishing a limited property right on them;
- 6) amendments to the Articles of Association;
- 7) increasing or decreasing the share capital;
- 8) merger, division or transformation of the Company;
- 9) dissolution of the Company and opening its liquidation;
- 10) reviewing and deciding on motions presented by the Supervisory Board; and
- 11) other matters reserved for the power of the Shareholder Meeting by provisions of law or the Articles of Association.

Voting right

One share gives one vote at the Shareholder Meeting. The Shareholder Meeting is valid regardless of the number of shares represented at it.

The rights to submit draft resolutions to the Company

A shareholder or shareholders of the Company representing at least one twentieth of the share capital may, before the date of a Shareholder Meeting submit draft resolutions concerning matters that have been or are to be put on the agenda to the Company in writing or using means of electronic communication. The Company shall immediately publish the draft resolutions on its website.

The right to demand handing over copies of annual financial statements

Each shareholder of the Company has the right to demand being handed over copies of the Management Board's report on the Company's activity and financial statements, with a copy of the Supervisory Board's report and an auditor's opinion at least fifteen days before a Shareholder Meeting.

The right to obtain information

The Management Board is obligated to provide to the Company's shareholder on his or her demand, during a Shareholder Meeting, information about the Company, if it is justified by assessment of a matter put on the agenda of the

Shareholder Meeting. If there are important reasons, the Management Board may provide information in writing outside a Shareholder Meeting. In such a case, the Management Board is obligated to provide information not later than within two weeks of the date of presenting the demand by the Company's shareholder at a Shareholder Meeting.

The Management Board may refuse to provide information if this could do harm to the Company, a company related to the Company or its subsidiary, in particular by disclosing technical, trade or organizational secrets of the enterprise. A Management Board member may refuse to provide information if provision of the information could form grounds for his or her penal, civil law or administrative responsibility.

Information provided to the Company's shareholder should be publicly announced in the form of a current report.

A shareholder who was refused access to information demanded during a Shareholder Meeting and who reported an objection to the minutes of the Meeting may file a petition to the registry court to obligate the Management Board to provide the information. Such a petition should be filed within a week of the closing of the Shareholder Meeting at which it was refused to provide the information. The shareholder may also file a petition to the registry court to obligate the Company to publish information provided to another shareholder outside a Shareholder Meeting. In compliance with the Regulation on Reports, the Company will be obligated to provide in the form of a current report information provided to a shareholder after the Management Board is obligated to do so by the registry court in cases referred to above.

The right to demand handing over copies of motions

Each shareholder of the Company has the right to demand being handed over copies of motions regarding matters put on the agenda of the nearest Shareholder Meeting. Such a demand should be submitted to the Management Board. Copies of motions should be handed over not later than a week before a Shareholder Meeting.

The right to demand election of the Supervisory Board by split voting

Upon a motion 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 Shareholder Meeting by split voting, even if provisions of the Articles of Association specify a different way of appointing the Supervisory Board. In such a case, the procedure provided for in the Company's Articles of Association is not applied and shareholders will follow the procedure provided

for in the Commercial Company Code. The mechanism for such election is as follows: the total number of the Company's shares is divided into five (i.e. the total number of Supervisory Board members to be elected by split voting). Shareholders representing such a number of shares may form a separate group to elect one Supervisory Board member and cannot vote to elect the other members. If after split voting there are still vacant positions on the Supervisory Board, shareholders who did not participate in forming any of the groups will be entitled to elect the remaining Supervisory Board members by simple majority of votes.

The right to appeal the Shareholder Meeting's resolutions

The Company's shareholders are entitled to appeal resolutions adopted by the Shareholder Meeting by bringing an action to repeal a resolution or to declare a resolution invalid.

A resolution of the Shareholder Meeting contrary to the Articles of Association or good practices or acting against the Company's interest or aiming to harm a shareholder of the Company may be appealed by bringing an action against the Company to repeal the resolution. Action for repealing the Shareholder Meeting's resolution should be brought within one month of the date of receipt of information about the resolution, not later, however, than within three months of the date of adopting the resolution.

The Shareholder Meeting's resolution contrary to law may be appealed by bringing an action against the Company to declare the resolution invalid. Action for declaring the Shareholder Meeting's resolution invalid should be brought within 30 days of the date of its publication, not later, however, than within one year of the date of adopting the resolution.

The right to bring an action to repeal a Shareholder Meeting resolution or to declare it invalid is vested in:

- 1) the Management Board, the Supervisory Board and each of the members of these bodies;
- 2) the Company's shareholder who voted against the resolution and after its adoption demanded entering his or her objection in the minutes;
- 3) the Company's shareholder who was groundlessly refused to participate in the Shareholder Meeting; and
- 4) the Company's shareholders who were absent from the Shareholder Meeting, only in the event that the Shareholder Meeting was convened defectively or a resolution was adopted from outside of the meeting agenda.

Changes to the rights of the Company's shareholders

Changes to the rights of holders of the Shares require the Shareholder Meeting's resolution adopted by the majority of three fourths of the votes and entry to the business register of the National Court Register (KRS). In addition, a resolution to amend the Articles of Association, increase the Company's shareholders' benefits/obligations or limiting the rights granted personally to the Company's shareholders, requires consent from all of the Company's shareholders to whom it applies.

The right to demand selection an auditor for special matters

Pursuant to Art. 84 of the Public Offering Act, upon motion of the Company's shareholder(s) holding at least 5% of the total number of votes, the Shareholder Meeting may adopt a resolution to have a specific matter examined by an expert, at the Company's costs, concerning the Company's formation or transacting its business. For this purpose, those shareholders may demand calling an Extraordinary Shareholder Meeting or putting on the agenda the issue of adopting this resolution of the next Shareholder Meeting. The demand should be submitted in writing to the Management Board not later than one month before the proposed date of the Shareholder Meeting. If an Extraordinary Shareholder Meeting is not convened within two weeks of the date of presenting the demand to the Management Board, the registry court may, after summoning the Management Board to make a statement, to authorize the Company's shareholders submitting such a demand to call an Extraordinary Shareholder Meeting. The court shall appoint Chairperson of this Shareholder Meeting.

The Shareholder Meeting's resolution on the selection of auditor for special matters should define in particular:

1. identification of the auditor for special matters, to whom the author of the motion gave consent in writing;
2. the object and scope of the inspection, in accordance with the content of the motion, unless the author gave consent in writing to change them;
3. types of documents that the Company should make available for the expert; and
4. the date of starting the inspection, not longer than 3 months of the date of adopting the resolution.

If a Shareholder Meeting does not adopt a resolution consistent with the content of the motion or adopts such a resolution in breach of art. 84 sec. 4 of the Public Offering Act, the authors of the motion may, within 14 days of the date of the resolution adoption, file a petition to the registry court to select the indicated entity as the auditor for special matters.

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An auditor for special matters may be exclusively an entity having professional knowledge and qualifications needed to review the matter defined in the Shareholder Meeting's resolution, which will ensure preparation of an accurate and objective report on the review. An auditor for special matters cannot be an entity providing services for the Company in the period to be reviewed, its parent company or subsidiary as well as the parent entity or a significant investor as defined in the Accounting Act. An auditor for special matters cannot be, either, an entity belonging to the same capital group as the entity who provided the services referred to above.

The Management Board and Supervisory Board are obligated to provide to an auditor for special matters documents defined in the Shareholder Meeting's resolution

to appoint an auditor for special matters or in a court decision to appoint an auditor for special matters, as well as to provide necessary explanations to conduct the inspection.

The auditor for special matters is obligated to present the Management Board and the Supervisory Board a report in writing on the results of the inspection. The Management Board is obligated to provide this report in the form of current report. The report of the auditor for special matters may not disclose information constituting technical, trade or organizational secrets of the Company, unless this is necessary to justify the position included in that report.

The Management Board is obligated to submit a report on the manner of taking the inspection results into consideration at the nearest Shareholder Meeting.

These report was authorized by the Management Board of the Parent Company on 26 February 2014.

Paweł Laskowski - Fabisiewicz
Vice-president of the
Management Board

Artur Lebiecki
President of the Management Board

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

Rafał Krzemień
Member of the Management
Board

Sławomir Mieczysław Frąckowiak
Member of the Management Board