



THE POLSKI HOLDING NIERUCHOMOŚCI SPÓŁKA AKCYJNA GROUP

Consolidated report for the first half of 2016



POLSKI HOLDING
NIERUCHOMOŚCI S.A.

POLSKI HOLDING NIERUCHOMOŚCI S.A.

Consolidated report for the first half of 2016

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

Selected financial data

Selected consolidated financial data	in PLN million		in EUR million	
	Period ended	Period ended	Period ended	Period ended
	30 June 2016	30 June 2015	30 June 2016	30 June 2015
I. Operating revenues	88.6	73.0	20.2	16.7
II. Operating profit/(loss)	53.3	31.9	12.2	7.3
III. Profit/(loss) before tax on continued operations	45.7	30.2	10.4	6.9
IV. Net profit /(loss)	39.9	29.2	9.1	6.7
V. Cash flows from operating activities	(40.6)	7.4	(9.3)	1.7
VI. Cash flows cash from investing activities	(262.8)	(68.0)	(60.0)	(15.5)
VII. Cash flows from financing activities	240.6	72.0	54.9	16.4
VIII. Net increase/(decrease) in cash and cash equivalents	(62.8)	11.4	(14.3)	2.6
	As at	As at	As at	As at
	30 June 2016	31 December 2015	30 June 2016	31 December 2015
IX. Assets	2,729.1	2,514.0	616.7	589.0
X. Non-current liabilities	564.2	344.6	127.5	80.7
XI. Current liabilities	162.5	186.7	36.7	43.7
XII. Equity attributable to equity holders of the parent	1,970.8	1,949.8	445.3	456.8
XIII. Share capital	46.7	46.7	10.6	10.6
XIV. Number of shares (in pcs)	46,722,747	46,722,747	46,722,747	46,722,747
XV. Net profit (loss) per share attributable to shareholders of the parent (PLN / EUR)	0.85	0.62	0.19	0.14
XVI. Book value per share attributable to shareholders of the parent (PLN / EUR)	42.18	41.73	9.53	9.43

Selected separate financial data	in PLN million		in EUR million	
	Period ended	Period ended	Period ended	Period ended
	30 June 2016	30 June 2015	30 June 2016	30 June 2015
I. Operating revenues	14.5	12.2	3.3	2.8
II. Operating profit/(loss)	30.7	23.7	7.0	5.4
III. Profit (loss) before tax	36.7	29.6	8.4	6.8
IV. Net profit /(loss)	35.7	28.7	8.1	6.6
V. Cash flows from operating activities	(2.0)	0.7	(0.5)	0.2
VI. Cash flows cash from investing activities	(0.6)	178.0	(0.1)	40.6
VII. Cash flows from financing activities	(0.2)	(119.5)	(0.0)	(27.3)
VIII. Net increase/(decrease) in cash and cash equivalents	(2.8)	59.2	(0.6)	13.5
	As at	As at	As at	As at
	30 June 2016	31 December 2015	30 June 2016	31 December 2015
IX. Assets	1,951.7	1,916.6	441.0	433.1
X. Non-current liabilities	2.4	1.6	0.5	0.4
XI. Current liabilities	25.3	7.3	5.7	1.7
XII. Equity	1,924.0	1,907.7	434.8	431.1
XIII. Share capital	46.7	46.7	10.6	10.6
XIV. Number of shares (in pcs)	46,722,747	46,722,747	46,722,747	46,722,747
XV. Profit (loss) per ordinary share (PLN/EUR)	0.76	0.62	0.17	0.14
XVI. Book value per share (PLN/EUR)	41.18	40.83	9.30	9.23

The above financial data for the period ended 30 June 2016 and for the period ended 30 June 2015 was translated into EUR according to the following rules:

- individual items of assets, liabilities and equity – at the average exchange rate of the National Bank of Poland as at 30 June 2016: 4.4255 PLN/EUR

- individual items of the consolidated statement of comprehensive income and the consolidated statement of cash flows – at the exchange rate representing an arithmetic mean of the average exchange rates of the National Bank of Poland as at the last day of each month of the reporting period from 1 January 2016 to 30 June 2016 – 4.3805 PLN/EUR

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

FOR THE 6-MONTH AND 3-MONTH PERIODS ENDED 30 JUNE 2016

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



**POLSKI HOLDING
NIERUCHOMOŚCI S.A.**

A. Interim condensed consolidated financial statements

Interim condensed consolidated statement of financial position as at 30 June 2016

	Note	30 June 2016 unaudited	31 December 2015 audited
Non-current assets			
Investment properties	7	2,353.1	2,015.4
Property, plant and equipment	8	45.4	45.8
Intangible assets		0.1	0.1
Investments in associates and jointly controlled entities	9	26.0	26.2
Deferred tax assets		52.0	47.5
Non-current financial assets	10	2.9	2.8
Other non-current assets	11	14.5	6.0
Total non-current assets		2,494.0	2,143.8
Current assets			
Inventories related to property development	12	55.0	62.2
Trade receivables and other assets	13	98.7	121.4
Income tax receivables		0.6	2.3
Cash and cash equivalents	14	63.7	126.5
Total current assets		218.0	312.4
Assets classified as held for sale	15	17.1	57.8
Total assets		2,729.1	2,514.0
Current liabilities			
Trade and other payables	16	(51.6)	(128.9)
Current debt	17	(61.2)	(8.1)
Prepayments related to property development		(1.0)	(2.2)
Income tax liabilities		(2.8)	(0.2)
Current provisions	18	(45.9)	(47.3)
Total current liabilities		(162.5)	(186.7)
Non-current liabilities			
Non-current debt	17	(514.2)	(304.9)
Deferred tax liabilities		(26.2)	(20.4)
Non-current provisions	18	(16.4)	(16.4)
Other non-current liabilities		(7.4)	(2.9)
Total non-current liabilities		(564.2)	(344.6)
Total liabilities		(726.7)	(531.3)
Net assets		2 002.4	1 982.7
Equity			
Share capital	19	46.7	46.7
Supplementary capital	20	1,841.4	1,812.5
Revaluation reserve	21	2.5	3.0
Retained earnings	22	80.0	87.6
Other reserves	23	0.2	0.0
Equity attributable to the equity holders of the parent company		1,970.8	1,949.8
Non-controlling interests		31.6	32.9
Total equity		2,002.4	1,982.7

**Interim condensed consolidated statement of comprehensive income
 for the 6-month and 3-month periods ended 30 June 2016**

	Note	6 months ended		3 months ended	
		30 June 2016 unaudited	30 June 2015 unaudited	30 June 2016 unaudited	30 June 2015 unaudited
Operating activities					
Lease revenue	24	74.0	60.4	40.4	30.1
Cost of property maintenance	25	(36.9)	(32.4)	(18.7)	(15.8)
Profit/(loss) on lease activities		37.1	28.0	21.7	14.3
Revenues from property development	24	10.7	11.0	5.3	3.9
Cost of property development	25	(8.4)	(8.2)	(4.2)	(2.7)
Profit/ (loss) on property development		2.3	2.8	1.1	1.2
Revenue from other activities	24	3.9	1.6	2.3	1.6
Cost of other activities	25	(3.2)	(1.3)	(1.7)	(1.2)
Profit / (loss) on other activities		0.7	0.3	0.6	0.4
Administrative and selling expenses	26	(15.2)	(16.8)	(8.0)	(9.3)
Change in the fair value of investment properties	7	23.4	(10.4)	20.9	(6.6)
Gain (loss) on disposal of investment properties	7	0.3	0.1	0.0	0.1
Other revenues	24	8.3	34.0	5.6	23.8
Other costs	25	(3.6)	(6.1)	(1.8)	(2.9)
Operating profit		53.3	31.9	40.1	21.0
Finance income	27	1.0	1.7	0.4	1.0
Finance costs	27	(9.0)	(3.8)	(5.1)	(3.8)
Net loss on financing activities		(8.0)	(2.1)	(4.7)	(2.8)
Share in profits of associates and jointly controlled entities	9	0.4	0.4	0.2	0.2
Profit before tax from continued operations		45.7	30.2	35.6	18.4
Corporate income tax	28	(5.7)	(1.3)	(3.9)	(1.8)
Net profit from continued operations		40.0	28.9	31.7	16.6
Net profit (loss) from discontinued operations		(0.1)	0.3	(0.1)	(0.1)
Net profit		39.9	29.2	31.6	16.5
Other comprehensive income:					
Hedging instruments		(0.5)	0.0	(0.0)	0.0
Other comprehensive income		(0.5)	0.0	(0.0)	0.0
Total comprehensive income		39.4	29.2	31.6	16.5
Net profit attributable to					
equity holders of the parent company		39.6	28.7	31.4	16.3
non-controlling interests	29	0.3	0.5	0.2	0.2
Comprehensive income attributable to					
equity holders of the parent company		39.1	28.7	31.4	16.3
non-controlling interests	29	0.3	0.5	0.2	0.2
Basic and diluted net earnings per share attributable to the equity holders of the parent company	30	PLN 0.85	PLN 0.62	PLN 0.67	PLN 0.35
Basic and diluted net earnings from continuing operations per share attributable to the equity holders of the parent company	30	PLN 0.85	PLN 0.61	PLN 0.67	PLN 0.35

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

**Interim condensed consolidated statement of changes in equity
 for the 6-month and 3-month periods ended 30 June 2016**

Equity attributable to the equity holders of the parent company

	Note	Share capital	Supplementary capital	Revaluation reserve	Retained earnings	Other reserves	Equity attributable to the equity holders of the parent company	Non-controlling interests	Total equity
As at 1 January 2016		46.7	1,812.5	3.0	87.6		1,949.8	32.9	1,982.7
Net profit for the period					39.6		39.6	0.3	39.9
Other comprehensive income - hedging instruments				(0.5)			(0.5)		(0.5)
Total comprehensive income for the period				(0.5)	39.6		39.1	0.3	39.4
Payment of dividend					(19.6)		(19.6)		(19.6)
Share issue						0.2	0.2		0.2
Change in the structure of non-controlling interests					1.3		1.3	(1.6)	(0.3)
Transfers between equity items	22		28.9		(28.9)		0.0		0.0
As at 30 June 2016		46.7	1,841.4	2.5	80.0	0.2	1,970.8	31.6	2,002.4
As at 1 January 2015		46.5	1,746.3	3.2	151.1		1,947.1	53.6	2,000.7
Net profit for the period					28.7		28.7	0.5	29.2
Total comprehensive income for the period				0.0	28.7		28.7	0.5	29.2
Payment of dividend					(60.7)		(60.7)		(60.7)
Share issue		0.2	4.4			0.4	5.0		5.0
Change in the structure of non-controlling interests					9.0		9.0	(21.8)	(12.8)
Transfers between equity items			60.1		(60.1)		0.0		0.0
As at 30 June 2015		46.7	1,810.8	3.2	68.0	0.4	1,929.1	32.3	1,961.4

Notes to the interim condensed consolidated financial statements on pages 10–22 are an integral part of these consolidated financial statements.

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

**Interim condensed consolidated statement of cash flows
 for the 6-month and 3-month periods ended 30 June 2016**

	Note	6 months ended		3 months ended	
		30 June 2016 unaudited	30 June 2015 unaudited	30 June 2016 unaudited	30 June 2015 unaudited
Cash flows from operating activities					
Profit/ (loss) before tax		45.6	30.5	35.5	18.3
Adjustments to cash flows from operating activities		(86.2)	(21.7)	(19.4)	25.0
Amortization and depreciation		0.6	0.6	0.3	0.4
Settlement of space arrangement costs		1.8	1.4	1.0	0.7
Change in the fair value of investment properties and gain / (loss) on disposal		(23.7)	10.3	(20.9)	6.5
Change in the value of other assets and gain / (loss) on disposal	14	(2.8)	(20.0)	(2.8)	(20.0)
Share of profits (losses) of jointly controlled entities		(0.4)	(0.4)	(0.2)	(0.2)
Net foreign exchange gains/ (losses)		0.0	(0.2)	0.0	(0.2)
Interest income from investing activities		(0.4)	(0.6)	(0.1)	(0.5)
Financing costs		5.7	0.0	3.3	0.0
Change in working capital	14	(67.0)	(10.0)	(1.3)	39.0
Income tax paid		0.0	(2.8)	1.3	(0.7)
Net cash flows from operating activities		(40.6)	8.8	16.1	43.3
Cash flows from investing activities					
Total inflows		11.3	6.9	7.3	6.5
Sale of investment properties		10.3	6.3	6.6	6.0
Interest from investing activities		0.4	0.6	0.1	0.5
Dividends		0.6	0.0	0.6	0.0
Total outflows		(274.1)	(76.3)	(6.2)	(55.3)
Expenditure and purchase of investment properties		(273.6)	(73.6)	(5.7)	(53.6)
Purchase of property, plant and equipment and intangible assets		(0.5)	0.0	(0.5)	0.0
Purchase of shares in jointly controlled entities		0.0	(1.0)	0.0	0.0
Loans		0.0	(1.7)	0.0	(1.7)
Net cash from investing activities		(262.8)	(69.4)	1.1	(48.8)
Cash flows from financing activities					
Total inflows		253.8	84.6	4.9	60.8
Bank loans		253.8	84.6	4.9	60.8
Total outflows		(13.2)	(12.6)	(6.4)	(9.1)
Bank loans		(13.0)	(6.9)	(6.4)	(3.5)
Repayment of finance lease liabilities		(0.1)	(0.2)	(0.0)	(0.1)
Repurchase of shares		(0.1)	(5.5)	0.0	(5.5)
Net cash flows from financing activities		240.6	72.0	(1.5)	51.7
Total net cash flows		(62.8)	11.4	15.7	46.2
Change in cash and cash equivalents in the balance sheet		(62.8)	11.6	15.7	46.4
Foreign exchange gains / (losses)		0.0	0.2	0.0	0.2
Cash and cash equivalents at the beginning of the period		126.5	136.4	48.0	101.6
Cash and cash equivalents at the end of the period		63.7	148.0	63.7	148.0

Notes to the interim condensed consolidated financial statements on pages 10–22 are an integral part of these consolidated financial statements.

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Notes to the interim condensed consolidated financial statements

1. General information

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

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

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

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

These interim condensed consolidated financial statements have been prepared in accordance with the requirements of IAS 34, "Interim Financial Reporting" and the Decree of the Minister of Finance of 19 February 2009 on current and periodical information submitted by issuers of securities and conditions for considering the information required under the legislation of a non-Member State as equivalent (consolidated text: Journal of Laws of 2014, item 133 as amended; Journal of Laws of 2016, item 860) ("the Decree") and present the financial position of the Polski Holding Nieruchomości S.A. Group as at 30 June 2016 and 31 December 2015, the results of its operations and cash flows for 6-month and 3-month periods ended 30 June 2016 and 30 June 2015.

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

3. Changes to International Financial Reporting Standards

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

4. Major accounting policies

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

and in carrying out investment projects. The Group carries out modern commercial projects on its own and in cooperation with top partners with many years' experience and a well-established market position. The projects of PHN S.A. are characterized by timeless architecture and attention to quality. They meet the most rigorous standards, thanks to which they appeal to the most demanding customers.

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

As at 30 June 2016, PHN S.A. was the parent company (directly or indirectly) to 50 entities. The structure of the Group is presented in the Directors' Report for the Group (note 2).

continue in operation as a going concern in the foreseeable future. As at the date of approval of these interim condensed consolidated financial statements, there are no circumstances indicating any threats to the Group continuing in operation.

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

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

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

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

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

Significant judgements made by the Management Board in these interim condensed consolidated financial statements in relation to the application of the Group's accounting policies and the main sources of uncertainty in its estimates were the same

as those described in note 5.3 to the consolidated financial

statements as at and for the year ended 31 December 2015.

5. Seasonality of operations

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

6. Segment reporting

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

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

The activities conducted as part of the operating segments listed above are performed in Poland. Other activities comprise, in

particular, income and costs relating to the hotel business and management services.

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

Segmental analysis for the 6-month period ended 30 June 2016 and as at 30 June 2016 (unaudited)

	Leases	Property development	Discontinued operations	Other activities	Unallocated	Total
Sales	74.0	10.7		3.9		88.6
Operating expenses	(36.9)	(8.4)		(3.2)		(48.5)
Gross profit/(loss) on sales	37.1	2.3		0.7		40.1
Administrative and selling expenses	(11.6)	(1.6)	(0.1)		(2.0)	(15.3)
Change in the fair value of investment properties	23.4					23.4
Gain on disposal of investment properties	0.3					0.3
Other revenues	8.1				0.2	8.3
Other costs	(3.6)					(3.6)
Operating profit/ (loss)	53.7	0.7	(0.1)	0.7	(1.8)	53.2
Finance income					1.0	1.0
Finance costs					(9.0)	(9.0)
Share in profits of associates and jointly controlled entities					0.4	0.4
Corporate income tax					(5.7)	(5.7)
Segment profit /(loss)	53.7	0.7	(0.1)	0.7	(15.1)	39.9
Segment assets	2 620.3	69.3	0.1	30.9	6.0	2 726.6
Segment liabilities	676.2	21.2	0.6	1.3	24.9	724.2
Capital expenditure	9.3					9.3
Amortization and depreciation	0.4			0.2		0.6

Other revenues include mainly: in the lease segment – a reassessment of the legal status of properties in the amount of PLN 2.8 million; a reversal of a part of the provision for using a property without a contract of PLN 2.6 million; reimbursement of the fee for perpetual usufruct of land of PLN 0.9 million; a reversal of receivables write-downs of PLN 0.7 million.

Other costs include mainly: in the lease segment – receivables write-downs of PLN 2.5 million; costs relating to a change in the VAT deducting structure of PLN 0.8 million.

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Segmental analysis for the 6-month period ended 30 June 2015 (unaudited) and as at 31 December 2015 (audited)

	Leases	Property development	Discontinued operations	Other activities	Unallocated	Total
Sales	60.4	11.0		1.6		73.0
Operating expenses	(32.4)	(8.2)		(1.3)		(41.9)
Gross profit/(loss) on sales	28.0	2.8		0.3		31.1
Administrative and selling expenses	(13.1)	(1.3)	(0.1)		(2.4)	(16.9)
Change in the fair value of investment properties	(10.4)					(10.4)
Gain on disposal of investment properties	0.1					0.1
Other revenues	33.8	0.2	0.4			34.4
Other costs	(6.0)				(0.1)	(6.1)
Operating profit/ (loss)	32.4	1.7	0.3	0.3	(2.5)	32.2
Finance income					1.7	1.7
Finance costs					(3.8)	(3.8)
Share in profits of associates and jointly controlled entities					0.4	0.4
Corporate income tax					(1.3)	(1.3)
Segment profit /(loss)	32.4	1.7	0.3	0.3	(5.5)	29.2
Segment assets	2 394.4	76.2	0.1	30.7	12.6	2,514.0
Segment liabilities	497.6	25.2	0.6	1.3	6.6	531.3
Capital expenditure	81.8					81.8
Amortization and depreciation	0.6					0.6

Other revenues include mainly: in the lease segment – a reassessment of the legal status of properties of PLN 20.0 million; refundable civil law transactions tax on contributions in kind made in previous years to a partnership limited by shares of PLN 8.0 million; reversal of a part of a provision for using a property without a contract of PLN 2.4 million; reversal of receivables write-downs of PLN 2.7 million.

Other costs include mainly: in the lease segment – receivables write-downs of PLN 5.4 million; costs relating to a change in the VAT deducting structure of PLN 0.3 million; severance pay for dismissed employees of PLN 0.2 million.

Segmental analysis of revenues, costs, profits, losses and expenditure for the 3-month period ended 30 June 2016 (unaudited)

	Leases	Property development	Discontinued operations	Other activities	Unallocated	Total
Sales	40.4	5.3		2.3		48.0
Operating expenses	(18.7)	(4.2)		(1.7)		(24.6)
Gross profit/(loss) on sales	21.7	1.1		0.6		23.4
Administrative and selling expenses	(6.4)	(0.7)	(0.1)		(0.9)	(8.1)
Change in the fair value of investment properties	20.9					20.9
Gain on disposal of investment properties	0.0					0.0
Other revenues	5.4	0.0			0.2	5.6
Other costs	(1.8)	(0.0)			(0.0)	(1.8)
Operating profit/ (loss)	39.8	0.4	(0.1)	0.6	(0.7)	40.0
Finance income					0.4	0.4
Finance costs					(5.1)	(5.1)
Share in profits of associates and jointly controlled entities					0.2	0.2
Corporate income tax					(3.9)	(3.9)
Segment profit /(loss)	39.8	0.4	(0.1)	0.6	(9.1)	31.6
Capital expenditure	3.3					3.3
Amortization and depreciation	0.2			0.1		0.3

Other revenues include mainly: in the lease segment – a reassessment of the legal status of properties of PLN 2.8 million; a reversal of a part of a provision for using a property without a contract of PLN 1.3 million; a reversal of receivables write-downs of PLN 0.4 million.

Other costs include mainly: in the lease segment – receivables write-downs of PLN 1.7 million.

Notes to the interim condensed consolidated financial statements on pages 10–22 are an integral part of these consolidated financial statements.

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

Segmental analysis of revenues, costs, profits, losses and expenditure for the 3-month period ended 30 June 2015 (unaudited)

	Leases	Property development	Discontinued operations	Other activities	Unallocated	Total
Sales	30.1	3.9		1.6		35.6
Operating expenses	(15.8)	(2.7)		(1.2)		(19.7)
Gross profit/(loss) on sales	14.3	1.2		0.4		15.9
Administrative and selling expenses	(7.3)	(0.5)	(0.1)		(1.5)	(9.4)
Change in the fair value of investment properties	(6.6)					(6.6)
Gain on disposal of investment properties	0.1					0.1
Other revenues	23.7	0.1				23.8
Other costs	(2.8)				(0.1)	(2.9)
Operating profit/ (loss)	21.4	0.8	(0.1)	0.4	(1.6)	20.9
Finance income					1.0	1.0
Finance costs					(3.8)	(3.8)
Share in profits of associates and jointly controlled entities					0.2	0.2
Corporate income tax					(1.8)	(1.8)
Segment profit /(loss)	21.4	0.8	(0.1)	0.4	(6.0)	16.5
Capital expenditure	38.4					38.4
Amortization and depreciation	0.4					0.4

Other revenues include mainly: in the lease segment – a reassessment of the legal status of properties of PLN 20.0 million; reversal of a part of a provision for using a property without a contract of PLN 1.3 million; reversal of receivables write-downs of PLN 2.0 million.

Other costs include mainly: in the lease segment – receivables write-downs of PLN 2.8 million.

7. Investment properties

Movements in investment properties	6 months ended	
	30 June 2016 unaudited	30 June 2015 unaudited
As at 1 January	2,015.4	1,924.1
Purchase of investment properties	258.0	33.5
Expenditure on investment properties	9.3	81.8
Settlement of space arrangement costs	(1.8)	(1.4)
Change in the fair value of investment properties	39.7	(10.4)
Reclassification to property, plant and equipment	0.0	(26.0)
Reclassification from assets with unclear legal status	2.8	20.0
Reclassification from/to non-current assets classified as held for sale	29.7	(17.7)
As at the end of the period	2,353.1	2,003.9

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

Investment properties - effect on the financial result	6 months ended	
	30 June 2016 unaudited	30 June 2015 unaudited
Rental income from investment properties	74.0	60.4
Direct operating expenses incurred on rent-generating investment properties	(36.9)	(32.4)
Change in the fair value of investment properties	39.7	(10.4)
Gain on disposal of investment properties	0.3	0.1
<i>Revenues from sale of properties classified as investment properties or assets held for sale</i>	<i>11.3</i>	<i>12.2</i>
<i>Cost of properties sold (classified as investment properties or assets held for sale)</i>	<i>(11.0)</i>	<i>(12.1)</i>
Gain on investment properties	77.1	17.7

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Purchase of properties

In the first half of 2016, the Group acquired a property at Al. Grunwaldzka 409 in Gdańsk (Alchemia II; for details see Note 33).

Changes in the classification of legal status of properties

In the first half of 2016, the Group received a decision of the Mazowiecki Voivode confirming the acquisition of the right to perpetual usufruct of the property at ul. Reja 6 in Warsaw. Consequently, the Group recognized that property in assets. The effect of the reclassification (change in legal status) was recognized in the consolidated statement of comprehensive income under Other revenues (PLN 2.8 million).

Expenditure on investment properties comprise:

- ✓ expenditure relating to the construction of commercial development projects in 1st half of 2016: Domaniewska 37C in the total amount of PLN 4.2 million; in the first half of 2015: Domaniewska 37C, Retkinia in the total amount of PLN 76.3 million;
- ✓ expenditure on the preparation of the commercial development projects amounting to: 1st half of 2016: PLN 0.7 million; 1st half of 2015: PLN 1.7 million;

- ✓ modernization and arrangement of properties amounting to: 1st half of 2016: PLN 4.4 million; 1st half of 2015: PLN 3.8 million.

In the first half of 2016, the Group sold the properties at ul. Filtrowa 47 in Warsaw, Prądzyńskiego 21 in Warsaw, and parts of the properties in Łężyca, Parzniew, at ul. Podchorążych 69 in Warsaw and in Wincentowo.

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

8. Property, plant and equipment

	6 months ended	
	30 June 2016 unaudited	30 June 2015 unaudited
As at 1 January	45.8	22.5
Purchase	0.2	0.3
Amortization and depreciation	(0.6)	(0.6)
Reclassification from investment properties	0.0	26.0
As at the end of the period	45.4	48.2

The value of properties included in property, plant and equipment as at 30 June 2016 amounted to PLN 44.4 million, and as 31 December 2015 – PLN 44.8 million.

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

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

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

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

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

	6 months ended	
	30 June 2016 unaudited	30 June 2015 unaudited
As at 1 January	26.2	18.6
Purchase	0.0	1.0
Share in profits	0.4	0.4
Payment of dividend	(0.6)	(0.5)
As at the end of the period	26.0	19.5

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Jointly controlled entities are not listed on an active market. Their selected financial data as at and for the 6-month period ended 30 June 2016 and 30 June 2015 is as follows:

	Assets	Equity	Liabilities	Revenues	Profit	The Group's share in
Wrocław Industrial Park	39.6	38.2	1.4	1.0	0.8	0.5
Apartamenty Molo Rybackie	14.7	14.6	0.1	0.0	(0.2)	(0.1)
Parzniew Logistics Center Infrastructure	3.4	(0.3)	3.7	0.0	(0.2)	(0.1)
Parzniew Logistics Center 1	2.2	(0.0)	2.2	0.0	(0.0)	(0.0)
Total	59.9	52.5	7.4	1.0	0.4	0.3

10. Non-current financial assets

Non-current financial assets of the Group as at 30 June 2016 include loans granted to jointly controlled entities in the amount of PLN 2.9 million (31 December 2015: PLN 2.8 million).

11. Other non-current assets

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

12. Inventories related to property development

Structure of inventories	30 June 2016 unaudited	31 December 2015 audited
Land	49.6	50.1
Work in progress	2.0	0.8
Finished goods	3.4	11.3
Total inventories related to property development	55.0	62.2

Changes in inventories during the financial year	6 months ended	
	30 June 2016 unaudited	30 June 2015 unaudited
As at 1 January	62.2	35.8
Expenditure on construction	1.2	0.2
Disposal of premises	(8.4)	(8.8)
As at the end of the period	55.0	27.2

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

13. Structure of receivables

Structure of receivables	30 June 2016 unaudited			31 December 2015 audited		
	Total	Financial	Non-financial	Total	Financial	Non-financial
Trade receivables and other assets	98.7	15.5	83.2	121.4	12.4	109.0
Trade receivables	15.5	15.5	0.0	9.0	9.0	0.0
Receivables from the State Budget	73.3	0.0	73.3	100.6	0.0	100.6
<i>VAT on purchase of properties within the Group</i>	19.2	0.0	19.2	97.6	0.0	97.6
<i>Other receivables from the State Budget</i>	54.1	0.0	54.1	3.0	0.0	3.0
Prepayments	9.9	0.0	9.9	8.4	0.0	8.4
Other receivables	0.0	0.0	0.0	3.4	3.4	0.0
Income tax receivables	0.6	0.0	0.6	2.3	0.0	2.3
Total receivables and other assets	99.3	15.5	83.8	123.7	12.4	111.3

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

Analysis of cash and cash equivalents	30 June 2016 unaudited	31 December 2015 audited
Cash in hand and at bank	29.4	18.2
Current bank deposits	34.3	108.3
As at the end of the period	63,7	126,5

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

Change in the value of other assets and gain/(loss) on disposal	6 months ended		3 months ended	
	30 June 2016 unaudited	30 June 2015 unaudited	30 June 2016 unaudited	30 June 2015 unaudited
Reclassification from assets with unclear legal status	2.8	20.0	2.8	20.0
Total	2.8	20.0	2.8	20.0

Changes in working capital in the statement of cash flows	6 months ended		3 months ended	
	30 June 2016 unaudited	30 June 2015 unaudited	30 June 2016 unaudited	30 June 2015 unaudited
Change in inventories	7.2	8.6	3.9	8.9
Change in receivables	22.7	67.3	2.7	61.8
Change in other assets	(8.5)	(0.1)	(6.1)	(37.3)
Change in liabilities	(87.0)	(87.1)	0.2	4.4
Change in provisions	(1.4)	1.3	(2.0)	1.2
Total	(67.0)	(10.0)	(1.3)	39.0

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

Receivables	6 months ended		3 months ended	
	30 June 2016 unaudited	30 June 2015 unaudited	30 June 2016 unaudited	30 June 2015 unaudited
Change in receivables in the statement of financial position	22.7	69.1	22.7	31.9
Change in investment receivables	0.0	(1.8)	0.0	(1.8)
Change in receivables in the statement of cash flows	22.7	67.3	22.7	30.1

Liabilities	6 months ended		3 months ended	
	30 June 2016 unaudited	30 June 2015 unaudited	30 June 2016 unaudited	30 June 2015 unaudited
Change in liabilities in the statement of financial position	(74.0)	(23.7)	16.6	155.2
Change in investment liabilities	6.6	(2.7)	3.2	(6.1)
Change in liabilities relating to the payment of dividend	(19.6)	(60.7)	(19.6)	(60.7)
Change in liabilities in the statement of cash flows	(87.0)	(87.1)	0.2	88.4

15. Non-current assets classified as held for sale

	6 months ended	
	30 June 2016 unaudited	30 June 2015 unaudited
As at 1 January	57.8	12.0
Reclassification from/to investment properties	(29.7)	17.7
Disposal	(11.0)	(12.0)
As at the end of the period	17.1	17.7

Transfer of non-current assets classified as held for sale to investment properties was performed in the 1st half of 2016 due to the withdrawal from preliminary property sale agreements and

the decision to maintain selected properties in the Group's portfolio.

16. Structure of liabilities

Structure of liabilities	30 June 2016 unaudited			31 December 2015 audited		
	Total	Financial	Non-financial	Total	Financial	Non-financial
Current liabilities						
Debt	61.2	61.2	0.0	8.1	8.1	0.0
Bank loans	61.1	61.1	0.0	7.6	7.6	0.0
Car fleet leases	0.1	0.1	0.0	0.5	0.5	0.0
Trade and other payables	51.6	46.8	4.8	128.9	37.4	91.5
Trade payables	8.3	8.3	0.0	10.8	10.8	0.0
Capital expenditure commitments	0.1	0.1	0.0	6.5	6.5	0.0
Tenants' deposits	11.1	11.1	0.0	9.8	9.8	0.0
Payables to the State Budget	2.1	0.0	2.1	88.7	0.0	88.7
VAT on disposal of properties within the Group	0.0	0.0	0.0	84.8	0.0	84.8
Other payables to the State Budget	2.1	0.0	2.1	3.9	0.0	3.9
Prepayments for purchase of properties	2.7	0.0	2.7	2.8	0.0	2.8
Deposits of construction work subcontractors	2.5	2.5	0.0	3.1	3.1	0.0
Liabilities relating to payment of dividend	19.6	19.6	0.0	0.0	0.0	0.0
Valuation of derivative financial instruments	1.4	1.4	0.0	0.6	0.6	0.0
Other current liabilities	3.8	3.8	0.0	6.6	6.6	0.0
Income tax liabilities	2.8	0.0	2.8	0.2	0.0	0.2
Prepayments related to property development	1.0	0.0	1.0	2.2	0.0	2.2
Total current liabilities	116.6	108.0	8.6	139.4	45.5	93.9
Non-current liabilities						
Debt	514.2	514.2	0.0	304.9	304.9	0.0
Bank loans	514.1	514.1	0.0	304.8	304.8	0.0
Car fleet leases	0.1	0.1	0.0	0.1	0.1	0.0
Other	7.4	7.4	0.0	2.9	2.9	0.0
Tenants' deposits	3.3	3.3	0.0	0.8	0.8	0.0
Deposits of construction work subcontractors	0.3	0.3	0.0	0.1	0.1	0.0
Valuation of derivative financial instruments	3.8	3.8	0.0	2.0	2.0	0.0
Total non-current liabilities	521.6	521.6	0.0	307.8	307.8	0.0
Total liabilities	638.2	629.6	8.6	447.2	353.3	93.9

17. Debt by currency

Debt by currency	30 June 2016 unaudited	31 December 2015 audited
Bank loans	575.2	312.4
EUR	437.2	230.3
PLN	138.0	82.1
Car fleet leases	0.2	0.6
PLN	0.2	0.6
Total debt	575.4	313.0

The Group's loans bear interest at variable rates. In order to mitigate the risk of changes in interest rates, the Group enters into interest rate swap (IRS) contracts with banks which

effectively replace variable interest rates with fixed interest rates. These are WIBOR and EURIBOR rates plus a margin, depending on the currency of financing.

18. Provisions

Provision	30 June 2016 unaudited			31 December 2015 audited		
	Total	Non-current	Current	Total	Non-current	Current
Claims in respect of benefits derived from leased properties and non-contractual use of properties	31.4	15.5	15.9	31.1	15.5	15.6
Guarantee repairs and compensations in property development	18.5	0.0	18.5	21.3	0.0	21.3
Severance payments	0.5	0.0	0.5	0.5	0.0	0.5
Employee benefits	0.9	0.9	0.0	0.9	0.9	0.0
Other	11.0	0.0	11.0	9.9	0.0	9.9
Total	62.3	16.4	45.9	63.7	16.4	47.3

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19. Share capital

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

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

20. Supplementary capital

The supplementary capital consists of:

- ✓ Share premium of PLN 1,751.9 million;

- ✓ Appropriation of profit of PLN 89.5 million.

21. Revaluation reserve

The revaluation reserve consists of:

- ✓ The excess of the net book value over the fair value of investment properties as at the date of their reclassification from property, plant and equipment to investment properties of PLN 3.2 million;

- ✓ A decrease in the amount of capital resulting from hedge accounting of PLN 0.7 million.

22. Retained earnings

Retained earnings of PLN 87.6 million as at 31 December 2015 decreased to PLN 80.0 million as at 30 June 2016 due to:

- ✓ earmarking PLN 19.6 million for the payment of dividend to shareholders and PLN 28.9 million for transfer to supplementary capital;

- ✓ the net profit generated by the Group in the 1st half of 2016 of PLN 39.6 million;
- ✓ recognition of the excess of the book value of non-controlling interests of PLN 1.4 million;
- ✓ repurchase of a part of shares in subsidiaries in the amount of PLN 0.1 million from non-controlling shareholders.

23. Other reserves

The commitment to issue own shares in exchange for the acquired shares in subsidiaries, which were not issued by PHN

S.A. as at the balance sheet date, was recognized in other reserves in the amount of PLN 0.2 million.

24. Revenues from operating activities

Revenues from operating activities	6 months ended		3 months ended	
	30 June 2016 unaudited	30 June 2015 unaudited	30 June 2016 unaudited	30 June 2015 unaudited
Lease revenue	74.0	60.4	40.4	30.1
Revenues from property development	10.7	11.0	5.3	3.9
Revenues from other activities	3.9	1.6	2.3	1.6
Hotel business	3.9	1.6	2.3	1.6
Total revenues from operating activities	88.6	73.0	48.0	35.6

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Other revenues	6 months ended		3 months ended	
	30 June 2016 unaudited	30 June 2015 unaudited	30 June 2016 unaudited	30 June 2015 unaudited
Reclassification from assets with unclear legal status	2.8	20.0	2.8	20.0
Compensations	0.1	0.0	0.1	0.0
Revaluation of receivables	0.7	2.7	0.4	2.0
Reversal of provision for using properties without a contract	2.6	2.4	1.3	1.3
Reversal of other provisions	0.4	0.4	0.3	0.4
Refund of tax on civil law transactions	0.0	8.0	0.0	0.0
Refund of the fee for perpetual usufruct of land	0.9	0.0	0.0	0.0
Other	0.8	0.5	0.7	0.1
Total other revenues	8.3	34.0	5.6	23.8

25. Operating expenses

Operating expenses	6 months ended		3 months ended	
	30 June 2016 unaudited	30 June 2015 unaudited	30 June 2016 unaudited	30 June 2015 unaudited
Cost of property maintenance	36.9	32.4	18.7	15.8
Cost of property development	8.4	8.2	4.2	2.7
Costs of other activities	3.2	1.3	1.7	1.2
Hotel business	3.2	1.3	1.7	1.2
Total operating expenses	48.5	41.9	24.6	19.7

Other costs	6 months ended		3 months ended	
	30 June 2016 unaudited	30 June 2015 unaudited	30 June 2016 unaudited	30 June 2015 unaudited
Revaluation of receivables	2.5	5.4	1.7	2.8
Change in the structure of VAT deductions	0.8	0.3	0.0	0.0
Compensations and penalties	0.0	0.1	0.0	0.1
Severance payments	0.0	0.2	0.0	0.0
Other	0.3	0.1	0.1	0.0
Total other costs	3.6	6.1	1.8	2.9

26. Costs by type

The Group, excluding property development	6 months ended		3 months ended	
	30 June 2016 unaudited	30 June 2015 unaudited	30 June 2016 unaudited	30 June 2015 unaudited
Amortization and depreciation	0.6	0.6	0.3	0.4
Materials and energy used	7.4	7.3	3.1	3.3
External services	23.5	20.5	12.5	11.4
Taxes and fees	13.1	11.4	7.0	5.8
Wages and salaries, and other employee benefits	8.9	9.2	4.7	4.8
Other costs by type	0.2	0.2	0.1	0.1
Total operating expenses	53.7	49.2	27.7	25.8
Administrative expenses	(10.2)	(12.0)	(5.2)	(6.6)
Selling costs	(0.7)	(1.4)	(0.4)	(0.8)
Cost of preparation and execution of commercial development projects	(2.0)	(1.6)	(1.1)	(1.0)
One - off costs (Group restructuring)	(0.7)	(0.5)	(0.6)	(0.4)
Cost of sales	40.1	33.7	20.4	17.0

Notes to the interim condensed consolidated financial statements on pages 10–22 are an integral part of these consolidated financial statements.

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

POLSKI HOLDING NIERUCHOMOŚCI S.A.

Consolidated report for the first half of 2016

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

Property development	6 months ended		3 months ended	
	30 June 2016 unaudited	30 June 2015 unaudited	30 June 2016 unaudited	30 June 2015 unaudited
Amortization and depreciation	0.0	0.1	0.0	0.0
External services	1.2	0.6	0.5	0.0
Taxes and fees	0.1	0.1	0.1	0.1
Wages and salaries, and other employee benefits	0.3	0.3	0.1	0.2
Cost of goods for resale and materials sold	0.4	0.3	0.1	0.1
Change in inventory of finished goods	8.0	8.1	4.1	2.8
Total operating expenses	10.0	9.5	4.9	3.2
Administrative expenses	(1.2)	(0.4)	(0.6)	(0.1)
Selling costs	(0.2)	(0.3)	(0.1)	(0.1)
Cost of maintaining inventories and property development infrastructure	(0.2)	(0.6)	0.0	(0.3)
Cost of sales	8.4	8.2	4.2	2.7

27. Finance income and costs

Finance income	6 months ended		3 months ended	
	30 June 2016 unaudited	30 June 2015 unaudited	30 June 2016 unaudited	30 June 2015 unaudited
Interest income	0.6	1.5	0.2	0.8
<i>Current bank deposits</i>	0.4	0.6	0.1	0.5
<i>Other interest</i>	0.2	0.9	0.1	0.3
Valuation of financial instruments	0.2	0.0	0.0	0.0
Foreign exchange gains / (losses)	0.2	0.2	0.2	0.2
Other finance income	0.0	0.0	0.0	0.0
Total finance income	1.0	1.7	0.4	1.0

Finance costs	6 months ended		3 months ended	
	30 June 2016 unaudited	30 June 2015 unaudited	30 June 2016 unaudited	30 June 2015 unaudited
Financing costs	5.7	0.0	3.3	0.0
<i>Loans and advances</i>	5.7	0.0	3.3	0.0
Interest on overdue liabilities	0.0	3.8	0.0	3.8
Valuation of financial instruments	2.1	0.0	1.4	0.0
Foreign exchange gains / (losses)	0.6	0.0	0.0	0.0
Other finance costs	0.6	0.0	0.4	0.0
Total finance costs	9.0	3.8	5.1	3.8
Net finance income/expense	(8.0)	(2.1)	(4.7)	(2.8)

28. Reconciliation of effective tax rate

	6 months ended		3 months ended	
	30 June 2016 unaudited	30 June 2015 unaudited	30 June 2016 unaudited	30 June 2015 unaudited
Current tax	(4.3)	(2.4)	(3.4)	(0.1)
Deferred tax	(1.4)	1.1	(0.5)	(1.7)
Corporate income tax	(5.7)	(1.3)	(3.9)	(1.8)

	6 months ended		3 months ended	
	30 June 2016 unaudited	30 June 2015 unaudited	30 June 2016 unaudited	30 June 2015 unaudited
Profit before tax	45.7	30.2	35.6	18.4
Tax calculated at the rate applicable in Poland (19%)	(8.7)	(5.7)	(6.8)	(3.5)
Share of profits of jointly controlled entities	0.1	0.1	0.1	0.1
Non-taxable income	0.0	1.0	0.0	0.2
Non-deductible costs (permanent differences)	(0.1)	(0.1)	0.0	0.0
Utilization of previously unrecognized tax losses	0.2	0.0	0.0	0.0
Net profit /(loss) of partnerships	0.0	3.3	0.0	1.3
Tax losses resulting from contribution of bonds within the Group	2.8	0.0	2.8	0.0
Other	0.0	0.1	0.0	0.1
Corporate income tax	(5.7)	(1.3)	(3.9)	(1.8)

Notes to the interim condensed consolidated financial statements on pages 10–22 are an integral part of these consolidated financial statements.

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29. Net profit attributable to non-controlling interests

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

non-controlling interests was determined based on the assumption that they participate in the entire net profit for the 6-month period ended 30 June 2016 and 30 June 2015.

30. Earnings per share

Basic and diluted net earnings per share attributable to the equity holders of the parent company	6 months ended		3 months ended	
	30 June 2016 unaudited	30 June 2015 unaudited	30 June 2016 unaudited	30 June 2015 unaudited
Profit attributable to equity holders of the Company (in PLN million)	39.6	28.7	31.4	16.3
Weighted average number of ordinary shares (in millions)	46.7	46.5	46.7	46.3
Basic and diluted earnings (loss) per share (in PLN)	PLN 0.85	PLN 0.62	PLN 0.68	PLN 0.35

Basic and diluted net earnings from continued operations per share attributable to the equity holders of the parent company	6 months ended		3 months ended	
	30 June 2016 unaudited	30 June 2015 unaudited	30 June 2016 unaudited	30 June 2015 unaudited
Profit from continued operations attributable to equity holders of the Company (in PLN million)	39.7	28.4	31.5	16.4
Weighted average number of ordinary shares (in millions)	46.7	46.5	46.7	46.3
Basic and diluted earnings (loss) per share (in PLN)	PLN 0.85	PLN 0.61	PLN 0.68	PLN 0.35

31. Contingent assets and contingent liabilities

Note 8 to the consolidated financial statements for the year 2015 includes a disclosure of properties with an unclear legal status held by the Group. In the case of the favourable outcome of the legal disputes relating to these properties, they will be recognized as assets.

Some of the buildings leased by the Group for office purposes are recorded in the public registers as buildings designated for residential purposes. Changes in the manner of use of these buildings were not notified to the relevant authorities nor were all the required administrative decisions obtained. Consequently,

penalties may be imposed on the Group companies. As at the balance sheet date, the risk of such penalties being imposed on the Group is low and the potential amount of such penalties cannot be reliably estimated. Therefore, the Group did not recognize provisions for the potential penalties.

a) Capital expenditure commitments

There are no material capital expenditure commitments.

b) Operating lease

There are no material contingent liabilities under operating lease contracts.

32. Transactions with related entities

Transactions with the State Treasury and the State Treasury companies

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

The Group did not enter into individually significant transactions with the State Treasury related entities. In the ordinary course of its operations, the Group earned lease revenue from entities controlled by the State Treasury.

Consequently, the Group is exempt from the requirement to disclose information on transactions and open balances with the State Treasury-related entities under IAS 24 para. 18.

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

Revenue from sales of goods for resale and services	6 months ended		3 months ended	
	30 June 2016 unaudited	30 June 2015 unaudited	30 June 2016 unaudited	30 June 2015 unaudited
Revenue from the State Treasury	5.9	4.1	3.1	1.1

Notes to the interim condensed consolidated financial statements on pages 10–22 are an integral part of these consolidated financial statements.

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Remuneration of key management members

	6 months ended		3 months ended	
	30 June 2016 unaudited	30 June 2015 unaudited	30 June 2016 unaudited	30 June 2015 unaudited
Remuneration of members of the Management Board of the Parent Company	2.0	1.2	0.5	0.6
Remuneration of members of the Management Boards of the subsidiaries	0.3	0.6	0.2	0.5
Remuneration of members of the Supervisory Board of the Parent Company	0.2	0.1	0.1	0.0
Remuneration of members of the Supervisory Boards of the subsidiaries	0.1	0.2	0.0	0.1
Total	2.6	2.1	0.8	1.2

Transactions with associates and jointly controlled entities (joint ventures)

There were no significant transactions with associates and jointly controlled entities in the six-month periods ended 30 June 2016 and 30 June 2015.

33. Other information

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

The loan bears interest based on EURIBOR for three-month deposits and based on WIBOR for one-month deposits (in the part relating to the VAT tranche), plus a margin.

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

- (i) mortgages on the perpetual usufruct right to the purchased property;
- (ii) a financial and registered pledge on all shares of PHN SPV 33 Sp. z o.o. established by the shareholder – the Company;

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

34. Post balance sheet date events

No material events which should have been disclosed in these interim condensed consolidated financial statements occurred

between the balance sheet date and the date of approval of these interim condensed consolidated financial statements.

These interim condensed consolidated financial statements were approved by the Management Board of the Parent Company on 31 August 2016.

dr Marcin Marcinkiewicz
 Member of the Management Board
 in charge of Investments

Piotr Staroń
 Member of the Management Board
 in charge of Finance

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

Maciej Jankiewicz
 President of the Management Board

Grzegorz Grotek
 Person responsible for preparing the consolidated financial statements

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

FOR THE 6-MONTH AND 3-MONTH PERIODS ENDED 30 JUNE 2016

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



**POLSKI HOLDING
NIERUCHOMOŚCI S.A.**

B. Interim condensed separate financial statements

Interim condensed separate statement of financial position as at 30 June 2016

Note	30 June 2016 unaudited	31 December 2015 audited
ASSETS		
Non-current assets		
Property, plant and equipment	0.9	1.0
Intangible assets	0.1	0.1
Deferred tax assets	0.4	0.6
Shares in subsidiaries	5 1,697.4	1,661.2
Other non-current financial assets	6 244.3	242.3
Total non-current assets	1,943.1	1,905.2
Current assets		
Trade receivables and other assets	7 7.8	7.8
Cash and cash equivalents	0.8	3.6
Total current assets	8.6	11.4
Total assets	1,951.7	1,916.6
Current liabilities		
Trade and other payables	8 (24.7)	(6.3)
Current debt	8 (0.1)	(0.5)
Current provisions	(0.5)	(0.5)
Total current liabilities	(25.3)	(7.3)
Non-current liabilities		
Non-current debt	8 (0.1)	(0.1)
Deferred tax liabilities	(2.0)	(1.2)
Non-current provisions	(0.3)	(0.3)
Total non-current liabilities	(2.4)	(1.6)
Total liabilities	(27.7)	(8.9)
Net assets	1,924.0	1,907.7
Equity		
Share capital	9 46.7	46.7
Share premium	10 1 751.9	1 751.9
Other supplementary capital	89.5	60.6
Retained earnings	35.7	48.5
Other reserves	10 0.2	0.0
Total equity	1,924.0	1,907.7

Notes to interim condensed financial statements on pages 27-29 are an integral part of these financial statements

**Interim condensed separate statement of comprehensive income
 for the 6-month and 3-month periods ended 30 June 2016**

	Note	6 months ended		3 months ended	
		30 June 2016 unaudited	30 June 2015 unaudited	30 June 2016 unaudited	30 June 2015 unaudited
Income from core operating activities	11	14.5	12.2	7.4	6.1
Cost of core operating activities	11	(13.5)	(10.2)	(7.1)	(5.4)
Change in the value of shares in subsidiaries	5	31.5	24.1	23.4	10.6
Net profit / (loss) from core operating activities		32.5	26.1	23.7	11.3
Lease revenue		0.0	0.1	0.0	0.1
Cost of property maintenance		0.0	(0.0)	0.0	(0.0)
Lease result		0.0	0.1	0.0	0.1
Administrative and selling		(2.0)	(2.4)	(0.9)	(1.5)
Other revenues		0.2	0.0	0.2	0.0
Other costs		(0.0)	(0.1)	(0.0)	(0.1)
Operating profit/ (loss)		30.7	23.7	23.0	9.8
Finance income	12	6.0	6.2	2.9	3.7
Finance costs	12	(0.0)	(0.3)	(0.0)	(0.0)
Net loss on financing activities		6.0	5.9	2.9	3.7
Profit/ (loss) before tax		36.7	29.6	25.9	13.5
Corporate income tax		(1.0)	(0.9)	(0.6)	(0.3)
Net profit/ (loss)		35.7	28.7	25.3	13.2
Other comprehensive income					
Total comprehensive income		35.7	28.7	25.3	13.2
basic and diluted net earnings (loss) per share		PLN 0.76	PLN 0.62	PLN 0.54	PLN 0.29

**Interim condensed statement of changes in separate equity
 for the 6-month period ended 30 June 2016**

	Note	Share capital	Share premium	Other supplementary capital	Retained earnings	Other reserves	Total
As at 1 January 2016		46.7	1,751.9	60.6	48.5		1,907.7
Net profit for the period					35.7		35.7
Total comprehensive income for the period					35.7		35.7
Payment of dividend	13				(19.6)		(19.6)
Share issue						0.2	0.2
Transfers between equity items	13			28.9	(28.9)		0.0
As at 30 June 2016		46.7	1,751.9	89.5	35.7	0.2	1,924.0
As at 1 January 2015		46.5	1 746.3	0.5	120.8		1,914.1
Net profit for the period					28.7		28.7
Total comprehensive income for the period					28.7		28.7
Payment of dividend					(60.7)		(60.7)
Share issue		0.2	4.4			0.4	5.0
Transfers between equity items				60.1	(60.1)		0.0
As at 30 June 2015		46.7	1,750.7	60.6	28.7	0.4	1,887.1

Notes to interim condensed financial statements on pages 27-29 are an integral part of these financial statements

**Interim condensed separate statement of cash flows
 for the 6-month and 3-month periods ended 30 June 2016**

	6 months ended		3 months ended	
	30 June 2016 unaudited	30 June 2015 unaudited	30 June 2016 unaudited	30 June 2015 unaudited
Cash flows from operating activities				
Profit before tax	36.7	29.6	25.9	13.5
Adjustments to cash flows from operating activities	(38.7)	(28.9)	(28.9)	(12.1)
Amortization and depreciation	0.2	0.1	0.1	0.1
Change in the value of shares in subsidiaries	(31.5)	(24.1)	(23.4)	(10.6)
Net foreign exchange gains/ (losses)	0.0	(0.2)	0.0	(0.2)
Interest income from investing activities	(6.0)	(6.0)	(2.9)	(3.5)
Financing costs	0.0	0.3	0.0	0.0
Change in working capital	(1.4)	1.0	(2.7)	2.1
Net cash flows from operating activities	(2.0)	0.7	(3.0)	1.4
Cash flows from investing activities				
Total inflows	38.6	196.9	8.8	69.5
Sale of property, plant and equipment and intangible assets	0.1	0.0	0.1	0.0
Redemption of shares in subsidiaries	0.2	127.4	0.2	0.0
Financial instruments	38.3	69.5	8.5	69.5
Total outflows	(39.2)	(18.9)	(9.4)	(16.6)
Purchase of property, plant and equipment and intangible assets	(0.4)	(0.4)	(0.4)	(0.4)
Financial instruments	(29.6)	0.0	0.0	0.0
Loans	(4.7)	(4.0)	(4.5)	(1.7)
Purchase of shares in subsidiaries	(4.5)	(14.5)	(4.5)	(14.5)
Net cash from investing activities	(0.6)	178.0	(0.6)	52.9
Cash flows from financing activities				
Total inflows	0.0	0.0	0.0	0.0
Total outflows	(0.2)	(119.5)	(0.1)	(0.1)
Loans	0.0	(119.4)	0.0	0.0
Repayment of finance lease liabilities	(0.2)	(0.1)	(0.1)	(0.1)
Net cash flows from financing activities	(0.2)	(119.5)	(0.1)	(0.1)
Total net cash flows	(2.8)	59.2	(3.7)	54.2
Change in cash and cash equivalents in the balance sheet including:	(2.8)	59.4	(3.7)	54.4
Foreign exchange gains / (losses)	0.0	0.2	0.0	0.2
Cash and cash equivalents at the beginning of the period	3.6	0.2	4.5	5.2
Cash and cash equivalents at the end of the period	0.8	59.6	0.8	59.6

Explanatory notes to the interim condensed separate financial statements

1. Basis for preparation of the interim condensed separate financial statements

These interim condensed consolidated financial statements have been prepared in accordance with the requirements of IAS 34, "Interim Financial Reporting" and the Decree of the Minister of Finance of 19 February 2009 on current and periodical information submitted by issuers of securities and conditions for considering the information required under the legislation of a non-Member State as equivalent (consolidated text: Journal of Laws of 2014, item 133 as amended; Journal of Laws of 2016, item 860) ("the Decree") and present the financial position of the Polski Holding Nieruchomości S.A. Group as at 30 June 2016 and 31 December 2015, the results of its operations and cash flows for the 6-month and 3-month periods ended 30 June 2016 and 30 June 2015.

These interim condensed financial statements have been prepared on the assumption that the Company will continue in

operation as a going concern in the foreseeable future. As at the date of preparation of these interim condensed financial statements, there were no circumstances indicating any threats to the ability of Polski Holding Nieruchomości S.A. to continue as a going concern.

The duration of the Company is unspecified.

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

The financial statements have been prepared on the historical cost basis.

2. Changes to International Financial Reporting Standards

Changes in IFRS standards and interpretations presented in Note 5 to the separate financial statements as at and for the year ended 31 December 2015, which became effective between 1 January 2016 and the date of approving these interim condensed separate financial statements by the Management Board, did not have a material impact on the interim condensed separate financial statements.

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

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

3. Major accounting policies

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

Significant judgements made by the Management Board in these interim condensed financial statements in relation to the application of the Company's accounting policies and the main sources of uncertainty in its estimates were the same as those described in Note 7.3 to the financial statements as at and for the year ended 31 December 2015.

4. Segment reporting

The Company operates in one operating segment, i.e. the operations of holding companies. The Management Board

evaluates the Company's operations on the basis of its financial statements.

5. Shares in subsidiaries

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

reversed write-downs in respect of the shares in such subsidiaries. The change in the value of shares in subsidiaries comprises write-downs or reversal of write-downs recorded for shares in subsidiaries.

Due to a change in the fair value of assets of subsidiaries, in the 6-month period ended 30 June 2016 the Company increased or

In the first half of 2016, the Company acquired shares in subsidiaries in exchange for own shares issued. The purchase price was determined based on the cost of issue of PHN S.A.'s shares, estimated on the basis of the quotations of PHN S.A. shares on the dates on which the shares in subsidiaries were acquired.

6. Other non-current financial assets

Other non-current financial assets as at 30 June 2016 comprised bonds and loans in the total amount of PLN 234.1 million plus accrued interest in the total amount of PLN 10.2 million.

As at 31 December 2015, the Company recognized bonds acquired from related entities.

7. Structure of receivables

Structure of receivables	30 June 2016 unaudited			31 December 2015 audited		
	Total	Financial	Non-financial	Total	Financial	Non-financial
Trade receivables and other assets	7.8	6.4	1.4	7.8	6.7	1.1
Trade receivables	6.4	6.4	0.0	3.2	3.2	0.0
Prepayments	1.4	0.0	1.4	1.1	0.0	1.1
Receivables in respect of redemption of shares in subsidiaries	0.0	0.0	0.0	0.2	0.2	0.0
Prepayments for purchase of properties	0.0	0.0	0.0	3.2	3.2	0.0
Other receivables	0.0	0.0	0.0	0.1	0.1	0.0
Total receivables and other assets	7.8	6.4	1.4	7.8	6.7	1.1

The fair value of receivables and their amount recognized in the statement of financial position as at 30 June 2016 and as at 31 December 2015 were similar.

8. Structure of liabilities

Structure of liabilities	30 June 2016 unaudited			31 December 2015 audited		
	Total	Financial	Non-financial	Total	Financial	Non-financial
Current liabilities						
Debt	0.1	0.1	0.0	0.5	0.5	0.0
Car fleet leases	0.1	0.1	0.0	0.5	0.5	0.0
Trade and other payables	24.7	24.0	0.7	6.3	5.3	1.0
Trade payables	3.3	3.3	0.0	3.1	3.1	0.0
Capital expenditure commitments	0.0	0.0	0.0	0.4	0.4	0.0
Payables to the State Budget	0.7	0.0	0.7	1.0	0.0	1.0
Liabilities relating to payment of dividend	19.6	19.6	0.0	0.0	0.0	0.0
Other current liabilities	1.1	1.1	0.0	1.8	1.8	0.0
Total current liabilities	24.8	24.1	0.7	6.8	5.8	1.0
Non-current liabilities						
Debt	0.1	0.1	0.0	0.1	0.1	0.0
Car fleet leases	0.1	0.1	0.0	0.1	0.1	0.0
Total non-current liabilities	0.1	0.1	0.0	0.1	0.1	0.0
Total liabilities	24.9	24.2	0.7	6.9	5.9	1.0

9. Share capital

	30 June 2016 unaudited	31 December 2015 audited
Number of shares as at 1 January	46,722,747	46,482,044
Share issue	0	240,703
Number of shares as at 30 June (fully paid)	46,722,747	46,722,747

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

10. Share premium and other reserves

In the first half of 2016, the Company acquired shares in subsidiaries in exchange for own shares issued. The purchase price was determined based on the cost of issue of PHN S.A.'s shares, estimated on the basis of the quotations of PHN S.A. shares on the dates on which the shares in subsidiaries were acquired. The excess of purchase price over the par value of

shares of PLN 1 per share was recognized as share premium. The commitment to issue own shares in exchange for the acquired shares in subsidiaries which were not issued by PHN S.A. as at the balance sheet date was recognized in other reserves in the amount of PLN 0.2 million.

11. Operating income and expenses

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

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

12. Finance income and costs

Finance income includes interest on loans and bonds from related entities.

Finance costs comprise interest on loans received from related entities.

13. Appropriation of the Company's profit for 2015

By resolution no. 7 of 22 June 2016, the Annual General Shareholders' Meeting of Polski Holding Nieruchomości S.A. decided to appropriate the Company's profit for 2015 as follows:

- ✓ PLN 19.6 million for the payment of dividend for the shareholders;
- ✓ PLN 28.9 million for transfer to supplementary capital.

14. Contingent liabilities

The Company had no significant contingent liabilities as at 30 June 2016 and 31 December 2015.

15. Post-balance sheet events

No material events which should have been disclosed in these financial statements occurred between the balance sheet date

and the date of approval of these interim condensed financial statements.

These interim condensed financial statements were approved by the Management Board on 31 August 2016.

dr Marcin Marcinkiewicz
Member of the Management Board
in charge of Investments

Piotr Staroń
Member of the Management Board
in charge of Finance

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

Maciej Jankiewicz
President of the Management Board

Grzegorz Grotek
Person responsible for preparing the financial statements

THE POLSKI HOLDING NIERUCHOMOŚCI S.A. GROUP
DIRECTORS' REPORT

FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2016



POLSKI HOLDING
NIERUCHOMOŚCI S.A.

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

1. General information about the Group

Polski Holding Nieruchomości S.A. ("PHN S.A.", "the Group") is one of the largest entities in Poland in the commercial real estate sector in terms of portfolio value. The Group's portfolio comprises more than 140 properties, separated for business purposes, with a value of approx. PLN 2.5 billion. PHN S.A.'s activities are concentrated in Warsaw and the largest regional cities, including Poznań, Tricity, Łódź and Wrocław. The Company has many years' experience in the following sectors: office, retail and logistics, both in property management and in carrying out investment projects.

Since 13 February 2013 PHN S.A. has been listed on the Warsaw Stock Exchange. The Company carries out modern commercial projects on its own and in cooperation with top partners with many years' experience and a well-established market position. The projects of PHN S.A. are characterized by timeless architecture and attention to quality. They meet the

most rigorous standards, thanks to which they appeal to the most demanding customers. Polski Holding Nieruchomości S.A. was established in 2011 as a result of the consolidation of companies owned by the State Treasury, operating in the real estate sector in Poland or holding significant properties in their portfolios. The companies which form part of the Group have made a substantial contribution to the history of post-war architecture in Warsaw. The properties which belong to PHN S.A. are associated with the history of the capital, e.g. the historic Neo-Renaissance Kossakowski Palace at ul. Nowy Świat 19 or Intraco – the very first tower block in Warsaw, erected in 1975 at ul. Stawki 2.

Taking into account the recognition of new opportunities and potential market risks caused by changes taking place on the real estate market, the activities of Polski Holding Nieruchomości S.A. are as follows:

About the Polski Holding Nieruchomości S.A. Group

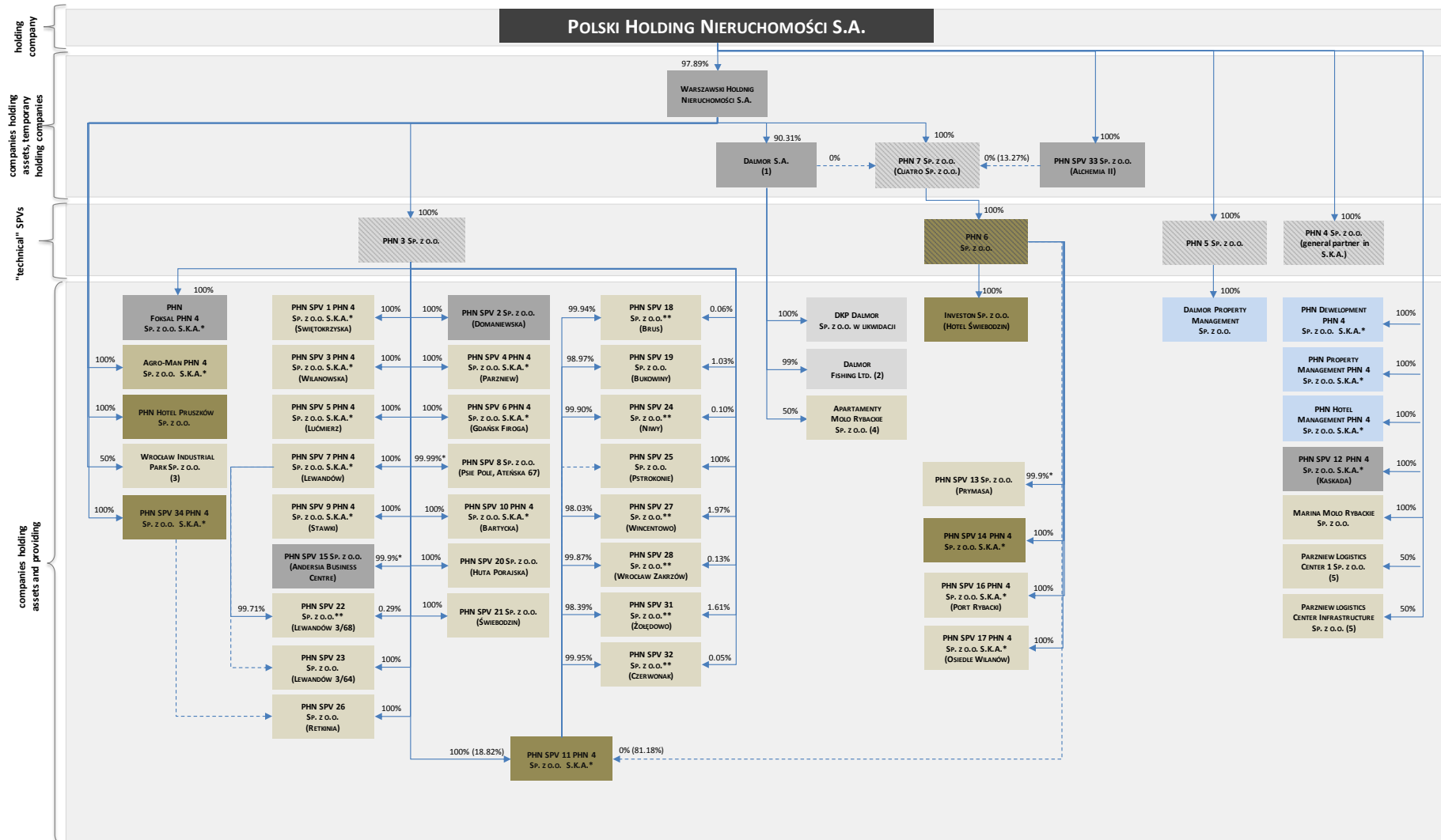
POLSKI HOLDING NIERUCHOMOŚCI S.A.	
What? <ul style="list-style-type: none"> • Offices – major part of the real estate portfolio • Logistics – only with international portfolios • Retail – "made to measure" for selected tenants • Apartments – Group locations and risk diversification 	Where? <ul style="list-style-type: none"> • Warsaw • Tricity • Wrocław • Upper Silesian urban area • Łódź • Poznań
How? <ul style="list-style-type: none"> • Attractive locations • Effective asset management • "Lift the whale and cut its tail off" • Quality of customer relationships • Investment portfolio optimization • Asset turnover • New development projects 	How do we compete? <ul style="list-style-type: none"> • Property development • Opportunistic M&A transactions (sector-related) • Property management for external partners • Special projects

We build PHN S.A.'s value through:

- Optimal use of real estate potential for our customers' needs
- Changing the structure of the investment portfolio to ensure high return on our shareholders' capital
- Dedication and professionalism of our employees
- Respecting our environment

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

2. Group structure



*PHN 4 Sp. z o.o. - 1 share (in a limited liability company) or the general partner (in a partnership limited by shares) ** PHN 3 - 100 shares

- Companies undertaking development projects (investments)
- Residential development business
- SPVs holding properties for sale
- "Service" companies
- Other (excl. properties)
- Asset management (lease)
- Technical SPVs

- (1) share of PHN S.A. 2.85%
- (2) 1% Alliance Trust Company LTD
- (3) JV with Segro B.V. (50%)
- (4) JV with mLocum S.A. (50%)
- (5) JV with Parzniew Partners B.V. (50%)

In the 1st half of 2016, the Group acquired the company Cuatro Sp. z o.o., which subsequently changed its name to PHN 7 Sp. z o.o.

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

3. The Group's property portfolio

Fair value. As at 30 June 2016, the Group's property portfolio comprised 142 properties separated for business purposes with a fair value of PLN 2,500.1 million, which were disclosed in the financial statements as assets. The portfolio comprised 14 properties with a fair value of PLN 156.0 million with unclear legal status (with a positive outlook, though) and two properties which were used for the purposes of joint ventures with a third party.

Change in segmentation. In the 1st half of 2016, the Group revised its segmentation by distinguishing a new category, "optimization", and changing the allocation to segments.

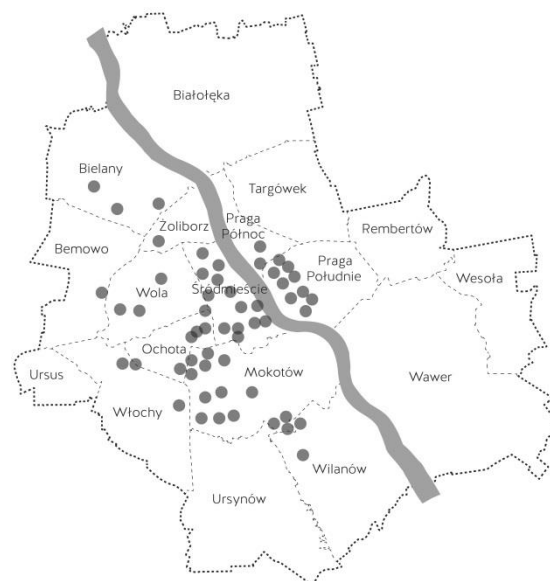
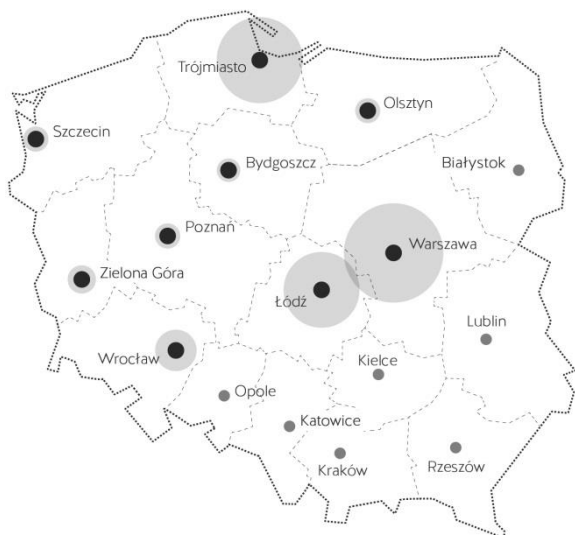
The Group also had 18 properties with unclear legal status with insufficient potential for a positive outcome for these properties to be disclosed in the financial statements as assets. Had they been free from legal defects, the fair value of those properties would have amounted to PLN 112.3 million.

Moreover, the Group separated two other properties for business purposes.

Structure of the property portfolio from the perspective of planned activities

Properties remaining in the portfolio	35 properties with a fair value of PLN 1,286.0 million – recognized in the financial statements under investment properties at a fair value of PLN 2,253.4 million; under fixed assets (for the Group's own use) at a fair value of PLN 29.3 million; and under assets held for sale at a fair value of PLN 2.2 million.
Properties earmarked for optimization	30 properties with a fair value of PLN 271.0 million – recognized in the financial statements under investment properties at a fair value of PLN 258.0 million; under fixed assets (for the Group's own use) at a fair value of PLN 4.0 million; and in inventories at a fair value of PLN 3.0 million.
Commercial projects	20 properties with a fair value of PLN 642.5 million, on which the Group is planning to carry out or is carrying out commercial projects (including JVs), recognized in the financial statements under investment properties with a fair value of PLN 624.6 million; under assets held for sale at a fair value of PLN 0.4 million; and indirectly as a component of interest in a joint venture.
Residential projects	31 properties with a fair value of PLN 192.4 million, which are used or are planned to be used for the purposes of residential construction projects (including JVs), including: <ul style="list-style-type: none"> • four properties with completed projects with a fair value of PLN 3.9 million, including three with unsold apartments, disclosed in the financial statements under inventories in the amount of PLN 3.4 million • 26 properties designated for potential projects with a fair value of PLN 187.1 million, disclosed in the financial statements under investment properties with a fair value of PLN 123.3 million; under fixed assets with a fair value of PLN 11.1 million; indirectly as a component of interest in a joint venture; and under inventories with a fair value of PLN 51.9 million; this group consists of 6 independent projects, one of them comprising 21 buildings (treated for business properties as separate properties) • one property comprising road plots with a fair value of PLN 1.4 million, disclosed in the financial statements under inventories in the amount of PLN 0.1 million
Properties held for sale	26 properties with a fair value of PLN 108.2 million, recognized in the financial statements as investment properties with a fair value of PLN 93.8 million, as assets classified as held for sale with a fair value of PLN 14.4 million

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



Gross leasable area (GLA) and vacancy ratio

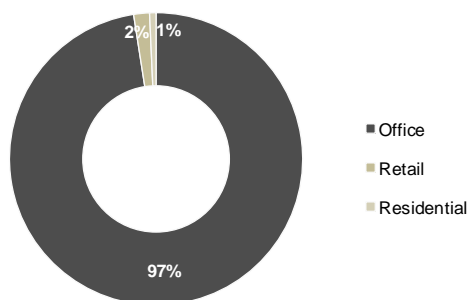
As at 30 June 2016, the Group's property portfolio comprised GLA of 326.7 thousand m². In the period from 1 January to 30 June 2016, GLA held by the Group decreased due to demolition of buildings in Warsaw and Gdynia as part of development projects under way.

The vacancy ratio amounted to 25.4% (calculated as the share of unleased space in GLA less space designated for

the Group's own use and permanently non leasable space, i.e. the space that is not leased by the Group for technical or legal reasons).

Gross leasable area of the properties remaining in the portfolio amounted to 164.6 thousand m², and the vacancy ratio amounted to 19.5%.

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



* excluding 18 real properties without regulated legal status

Lease ratio of properties remaining in the portfolio
 % of space



Lease result (NOI)

In the period from 1 January to 30 June 2016, the Group generated NOI of PLN 37.5 million, including: the portfolio properties segment: PLN 30.6 million; properties earmarked for optimization: PLN 3.0 million; the commercial projects segment:

PLN 2.7 million; the segment of properties held for sale: PLN 0.9 million; the residential projects segment: PLN 0.3 million. The Group classifies 94 properties with a fair value of PLN 1,959.2 million as properties generating lease revenues.

Acquisitions and disinvestments

In the first half of 2016, the Group sold the properties located in Warsaw at ul. Filtrowa and Prądzyńskiego and parts of four

properties (a parking place in the underground parking lot in Warsaw at ul. Podchorążych and plots in Łężyca, Parzniew

(road plots) and Wincentów). As at 30 June 2016, the Group signed three preliminary sale agreements, including one relating to a property.

4. The Group's activities

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

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

4.1. Commercial space lease market

Lease services offered by the Group comprise:

- ✓ lease of office space;
- ✓ lease of retail space;
- ✓ lease of warehouse and logistics space;
- ✓ lease of residential and other space;
- ✓ additional services – lease of offices for starting business, lease of 'virtual offices', conference halls, advertising space (walls, facades of buildings and areas on rooftops), parking lots, garages and cellars.

Office space. Office buildings of A, B and C class, residential properties, villas used for office purposes and diplomatic outposts represent the office space portfolio. Customers of the office space segment include various enterprises, both Polish and with foreign capital.

Retail space. The retail areas offered by the Group comprise mainly small areas in commercial complexes and in the Shopping Centre at ul. Bartycka 26 in Warsaw. The Group's offer is addressed to small and medium entrepreneurs operating

4.2. Residential development market

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

4.3. Hotel market

The Group conducts hotel activities in three properties: Hotel Zgoda, Hotel Wilanów and Hotel w Lipowym Przylądku. The hotel and catering services are provided to both legal and natural persons.

On 30 March 2016, the Group purchased a property located in Gdańsk at ul. Grunwaldzka. Moreover, the Group obtained the right to perpetual usufruct of the property located at ul. Reja 6 in Warsaw.

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

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

in the construction, fashion, catering, and pharmaceutical industries.

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

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

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

5. Markets and structure of customers and suppliers

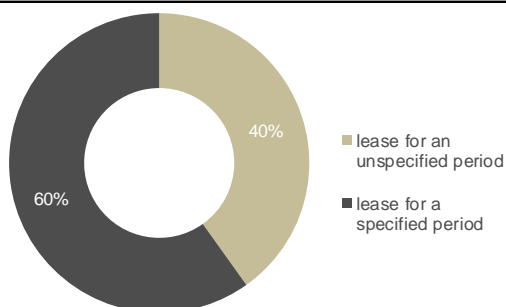
Markets

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

Although new lease agreements are usually signed for limited periods, about 40% of GLA is still leased for an unlimited period.

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

% of GLA *



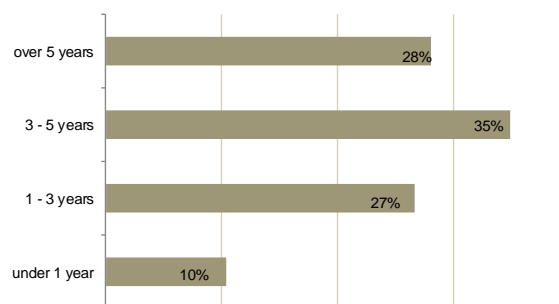
* excluding 18 properties without regulated legal status

The structure of the Group's tenants is highly diversified; therefore, the Group is not exposed to any significant risk associated with a single tenant or a group of tenants. As at 30 June 2016, the representatives of the business services sector constituted the largest group of tenants.

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

Structure of the leased space according to the lease period

% of the space leased for a specific period



* excluding 18 properties without regulated legal status

Structure of customers and suppliers

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

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

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

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

6. Financial situation

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

EBITDA (operating profit or loss adjusted for the change in the fair value of properties, gain/loss on their disposal, depreciation and amortization, and the effect of changes in the legal status of properties) amounted to PLN 16.7 million in the 2nd quarter of 2016 and was PLN 6.0 million (56%) higher than in the preceding quarter.

6.1. Main factors affecting the profit earned

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

Adjusted EBITDA (EBITDA adjusted for one-off expenses (the costs of the Group's restructuring), the provision for guarantee repairs and damages payable in connection with property development, and the change in the provision for claims relating to previous years) amounted to PLN 16.0 million and it was PLN 6.5 million (68.4%) higher than in the 1st quarter.

As at 30 June 2016, the Group employed 129 people.

1. External (macroeconomic, legal, market etc.) factors affecting the Group's development and barriers to its development, including:

- ✓ the situation on the local real estate markets (competitiveness of other properties, supply of space on the market, flexible price policies, bonuses and contributions for tenants) which affects the level of vacancies in the Group's properties;
 - ✓ the costs of external financing, which depends on the level of interest rates.
2. Internal factors, depending on the Group's action plans, execution of its goals etc., including:
- ✓ the sale of properties (in the 1st half of 2016, the Group generated a profit from sales of PLN 0.3 million);
 - ✓ the purchase of a profit-generating property (Alchemia II in Gdańsk);
 - ✓ modernization and alteration of some properties;
 - ✓ the level of costs of property maintenance;
 - ✓ the level of administrative expenses;
 - ✓ restructuring of the Group;
 - ✓ execution of new projects;
 - ✓ corporate income tax.

6.2. Analysis of the consolidated statement of financial position

Investment properties constituted the main component of non-current assets. In the 6-month period ended 30 June 2016, their value increased by PLN 337.7 million due to:

- ✓ the purchase of a property at Al. Grunwaldzka 409 in Gdańsk (Alchemia II) with a value of PLN 258.0 million;
- ✓ incurring expenditure on commercial development projects (PLN 4.2 million), preparation of commercial development projects (PLN 0.7 million) and modernization of properties (PLN 4.4 million);
- ✓ settlement of space arrangement costs (PLN 1.8 million);
- ✓ reclassification of properties from non-current assets classified as held for sale to investment properties (PLN 29.7 million);
- ✓ recognizing the Reja 6 property with a value of PLN 2.8 million in assets due to a change of its legal status;
- ✓ change in the value of properties (PLN 39.7 million).

In the 6-month period ended 30 June 2016, the value of property, plant and equipment decreased by PLN 0.4 million due to depreciation charges of PLN 0.6 million and acquisition of property, plant and equipment of PLN 0.2 million.

Deferred income tax assets increased by PLN 4.5 million in the 6 months ended 30 June 2016, mainly due to an increase in the asset recognized in respect of the difference between the tax value of the properties and liabilities and their carrying amount.

Current assets decreased by PLN 94.4 million in the 6-month period ended 30 June 2016 mainly as a result of:

- ✓ a decrease in cash and cash equivalents of PLN 62.8 million;
- ✓ a decrease in the amounts due to the state budget of PLN 27.3 million;
- ✓ a decrease in inventories relating to property development of PLN 7.2 million due to disposal of units (PLN 8.4 million), which was partly offset with expenditure incurred on property development projects of PLN 1.2 million (mainly Prymasa Tysiąclecia);

- ✓ an increase in the balance of trade receivables (PLN 6.5 million).

The amount of equity attributable to the equity holders of the parent company in the 6-month period ended 30 June 2016 increased by PLN 21.0 million due to:

- ✓ earmarking the amount of PLN 19.6 million for the payment of dividend to the shareholders;
- ✓ generating a net profit (PLN 39.6 million);
- ✓ a change in the ownership structure (PLN 1.6 million);
- ✓ a decrease in revaluation reserve (PLN 0.5 million);
- ✓ repurchase of shares from non-controlling shareholders (PLN 0.1 million).

The amount of non-current liabilities increased by PLN 219.6 million in the 6-month period ended 30 June 2016 due to:

- ✓ an increase in debt resulting from bank loans (PLN 209.3 million);
- ✓ an increase in deferred tax liabilities (PLN 5.8 million);
- ✓ an increase in the amount of other non-current liabilities (PLN 4.5 million).

The level of current liabilities decreased by PLN 24.2 million primarily due to:

- ✓ a decrease in the liabilities to the state budget in respect of VAT payable on the purchase of properties within the Group (PLN 84.8 million);
- ✓ a decrease in the balance of other liabilities to the state budget (PLN 1.8 million);
- ✓ a decrease in capital expenditure commitments (PLN 6.6 million);
- ✓ a decrease in the amount of advance payments relating to property development (PLN 1.2 million);
- ✓ a decrease in other current liabilities (PLN 2.8 million);
- ✓ a decrease in current provisions (PLN 1.4 million);

- ✓ an increase in debt resulting from bank loans (PLN 53.5 million);
- ✓ an increase in deposits of tenants (PLN 1.3 million);
- ✓ a new liability in respect of payment of dividend of PLN 19.6 million.

6.3. Analysis of the consolidated statement of comprehensive income

In the 2nd quarter of 2016, the Group generated a net profit of PLN 31.6 million, which represented an increase of PLN 23.3 million compared with the 1st quarter of 2016 mainly due to:

- ✓ an increase in the lease result of PLN 6.3 million, mainly resulting from the purchase of a property generating lease revenues at the end of the 1st quarter of 2016 (Alchemia II);
- ✓ a decrease in the result on property development of PLN 0.1 million;
- ✓ an increase in the result on other business activities of PLN 0.5 million, which was mainly due to the high season in the hotel business;
- ✓ an increase in administrative and selling expenses of PLN 0.8 million, mainly as a result of higher one-off expenses relating to the change in the Group structure;
- ✓ an increase in the fair value of properties (its effect on the financial result in the 2nd quarter of 2016 was PLN 18.4 million higher than in the 1st quarter of 2016) and a decrease in gain/loss on disposal of investment properties of PLN 0.3 million;
- ✓ an increase in net other income/(expenses), which was mainly due to a change in the legal status of the Reja 6 property;
- ✓ a decrease in gain/(loss) on financing activities of PLN 1.4 million, mainly resulting from higher costs of external financing due to a bank loan received for the financing of a newly purchased property and the valuation of derivative financial instruments;
- ✓ lower income tax proceeds of PLN 2.1 million;
- ✓ a lower gain/(loss) on discontinued activities of PLN 0.1 million.

EBITDA on continued operations	2Q 2016	1Q 2016	2Q 2015
Sales	48.0	40.6	35.6
Operating expenses	(24.6)	(23.9)	(19.7)
Gross profit/(loss) on sales	23.4	16.7	15.9
Administrative and selling expenses	(8.0)	(7.2)	(9.3)
<i>including one - off costs (Group restructuring)</i>	<i>0.6</i>	<i>0.1</i>	<i>0.4</i>
<i>Administrative and selling expenses, excluding one - off costs (Group restructuring)</i>	<i>(7.4)</i>	<i>(7.1)</i>	<i>(8.9)</i>
Net profit/loss on sales	15.4	9.5	6.6
Change in the fair value of investment properties and gain/loss on disposal	20.9	2.8	(6.5)
Other revenues	5.6	2.7	23.8
Other costs	(1.8)	(1.8)	(2.9)
Operating profit/ (loss)	40.1	13.2	21.0
Change in the fair value of investment properties and gain/loss on disposal	(20.9)	(2.8)	6.5
Amortization and depreciation	0.3	0.3	0.4
Change in the legal status of properties	(2.8)	0.0	(20.0)
EBITDA	16.7	10.7	7.9
Provision for guarantee repairs and damages in property development	0.0	0.0	(0.3)
One - off costs (Group restructuring)	0.6	0.1	0.4
Change in the provision for claims relating to previous years	(1.3)	(1.3)	(1.3)
Adjusted EBITDA	16.0	9.5	6.7

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

	2Q 2016	1Q 2016	2Q 2015
Profit/loss on lease			
Sales	40.4	33.6	30.1
Operating expenses	(18.7)	(18.2)	(15.8)
Gross profit/(loss) on sales	21.7	15.4	14.3
Administrative and selling expenses	(6.4)	(5.2)	(7.3)
<i>including one - off costs (Group restructuring)</i>	0.6	0.1	0.2
<i>Administrative and selling expenses, excluding one - off costs (Group restructuring)</i>	(5.8)	(5.1)	(7.1)
Net profit/loss on sales	15.3	10.2	7.0
Change in the fair value of investment properties and gain/loss on disposal	20.9	2.8	(6.5)
Other revenues	5.4	2.7	23.7
Other costs	(1.8)	(1.8)	(2.8)
Operating profit/ (loss)	39.8	13.9	21.4
Change in the fair value of investment properties and gain/loss on disposal	(20.9)	(2.8)	6.5
Amortization and depreciation	0.2	0.2	0.4
Change in the legal status of properties	(2.8)	0.0	(20.0)
EBITDA	16.3	11.3	8.3
One - off costs (Group restructuring)	0.6	0.1	0.2
Change in the provision for claims relating to previous years	(1.3)	(1.3)	(1.3)
Adjusted EBITDA	15.6	10.1	7.2

In the 2nd quarter of 2016, mainly due to the purchase of the Alchemia II property, the Group's revenues in the lease segment increased by PLN 6.8 million (20.2%) compared with the previous quarter. In the same period, the costs of property maintenance increased by PLN 0.5 million, and administrative and selling expenses increased by PLN 1.2 million. The net

sales in the lease segment increased by PLN 5.1 million q/q and PLN 8.3 million y/y. EBITDA in the lease segment amounted to PLN 16.3 million and it increased by PLN 5.0 million q/q and PLN 8.0 million y/y. Adjusted EBITDA amounted to PLN 15.6 million and increased by PLN 5.5 million q/q and PLN 8.4 million y/y.

	2Q 2016	1Q 2016	2Q 2015
Profit/loss on property development			
Sales	5.3	5.4	3.9
Operating expenses	(4.2)	(4.2)	(2.7)
Gross profit/(loss) on sales	1.1	1.2	1.2
Administrative and selling expenses	(0.7)	(0.9)	(0.5)
Net profit/loss on sales	0.4	0.3	0.7
Other revenues	0.0	0.0	0.1
Operating profit/ (loss)	0.4	0.3	0.8
EBITDA	0.4	0.3	0.8
Provision for guarantee repairs and damages in property development	0.0	0.0	(0.3)
Adjusted EBITDA	0.4	0.3	0.5

The gross profit from sales in the property development segment in the 2nd quarter of 2016 amounted to PLN 1.1 million and decreased by PLN 0.1 million q/q and y/y. In the 2nd quarter of 2016, adjusted EBITDA was equal to EBITDA and amounted to PLN 0.4 million. It increased by PLN 0.1 million q/q and decreased by PLN 0.1 million y/y. Lower revenues and costs of sales adjusted for one-off events are mainly a result of the sale of the last units in the completed project Parzniew II.

As at 30 June 2016, the Group had 11 completed units, including 9 units for which contracts had been signed. In the 2nd quarter of 2016, the Group concluded 7 preliminary agreements for the sale of units (1Q 2016: 14 units, 2Q 2015: 29 units).

	2Q 2016	1Q 2016	2Q 2015
Profit/loss on other business activities			
Sales	2.3	1.6	1.6
Operating expenses	(1.7)	(1.5)	(1.2)
Gross profit/(loss) on sales	0.6	0.1	0.4
Net profit/loss on sales	0.6	0.1	0.4
Operating profit/ (loss)	0.6	0.1	0.4
Amortization and depreciation	0.1	0.1	0.0
EBITDA	0.7	0.2	0.4
Adjusted EBITDA	0.7	0.2	0.4

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

Unallocated items of the consolidated statement of comprehensive income	2Q 2016	1Q 2016	2Q 2015
Administrative and selling expenses	(0.9)	(1.1)	(1.5)
Net profit/loss on sales	(0.9)	(1.1)	(1.5)
Other revenues	0.2	0.0	0.0
Other costs	0.0	0.0	(0.1)
Operating profit/ (loss)	(0.7)	(1.1)	(1.6)
EBITDA	(0.7)	(1.1)	(1.6)
One - off costs (Group restructuring)	0.0	0.0	0.2
Adjusted EBITDA	(0.7)	(1.1)	(1.4)

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

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

6.4. Analysis of the consolidated statement of cash flows

In 2Q 2016, the Group generated positive net cash flows from operating activities in the amount of PLN 16.1 million, resulting from the following events:

- ✓ generating positive adjusted EBITDA of PLN 15.9 million, including PLN -0.1 million from discontinued operations;
- ✓ settlement of advance payments relating to perpetual usufruct of land in the amount of PLN 2.7 million;
- ✓ reimbursement of current income tax in the amount of PLN 1.3 million;
- ✓ one-off expenses amounting to PLN 0.6 million relating to restructuring and reorganization;
- ✓ generating positive cash flows from property development of PLN 1.1 million, mainly as a result of a decrease in inventories and receivables;

- ✓ a decrease in other working capital of PLN 4.3 million.

Positive net cash flows from investing activities recognized in 2Q 2016 of PLN 1.1 million comprised the disposal of investment properties in the amount of PLN 6.6 million, receipt of dividend from a co-subsidiary in the amount of PLN 0.6 million and proceeds from interest on bank deposits in the amount of PLN 0.1 million – these amounts were partly offset with expenditure incurred on investment properties and property, plant and equipment in the amount of PLN 6.2 million.

In 2Q 2016, the Group generated negative cash flows from financing activities of PLN 1.5 million, resulting from proceeds from bank loans of PLN 4.9 million offset with repayment of liabilities in respect of a bank loan of PLN 6.4 million

7. Operating and investing activities

The Group conducts commercial development projects in order to obtain high class assets which will provide a stable source of revenues in the long-term perspective. In accordance with its

strategy, the Group also carries out development projects for sale in the residential sector.

Key development projects executed by the Group

1. Completed projects

Domaniewska Office HUB (Warsaw)

As at the end of the 1st half of 2016, the Domaniewska Office Hub building was leased in approx. 73%. The building's commercialization is currently coming to completion and negotiations with potential tenants have reached an advanced stage.

3. Pending projects

Parzniew Logistics Center (Parzniew near Pruszków)

The Polski Holding Nieruchomości S.A. Group is carrying out a warehouse development project in cooperation with a JV partner - the American company Hillwood, which is one of the leaders of the international market of logistics properties. The target GLA of the logistics park in Parzniew near Pruszków is approx. 95,000 m² (to be built in a few stages). The construction permit covers GLA of approx. 56,000 m². Talks with potential tenants are under way.

5. Pending projects

Prymasa Tysiąclecia* (Warsaw)

As part of the project, it is planned to arrange friendly space with low density of development and access to a range of services. A well-arranged office space is also planned. In July 2015, a contract for design work was signed with the "ATELIER 7" studio.

In accordance with the residential project concept, the Group plans to build 435 modern apartments with a usable area of 22,500 m², mostly facing two sides of the building, with balconies or gardens, and 1,500 m² of service space. The preliminary office building concept provides for GLA of 14,900 m². An application was filed for a construction permit for the 1st stage of the residential part of the project. Demolition work on the site is currently in progress. The process of selection of the General Contractor for the 1st stage of the residential part of the project is in progress.

Capex for the first stage of the project (12,000 m² of residential space) amounts to approx. PLN 61.5 million. The project is planned to be commenced in the 4th quarter of 2016.

7. Projects under preparation

Świętokrzyska 36 (City Tower) (Warsaw)

In place of the present developed property at ul. Świętokrzyska 36, on land of an area of approx. 0.6 ha, the Group plans to build a modern high-rise A class office building with total GLA of approx. 40,000 m². Since a station of the Warsaw Underground is located nearby, a direct connection between the facility and the station can be designed. An application for the construction permit was filed in the 3rd quarter of 2015 and final permission for demolition of the existing building was obtained. The Group plans to obtain a construction permit in the 4th quarter of 2016.

2. Pending projects

Wrocław Industrial Park (Wrocław)

As part of the Wrocław Industrial Park project (JV with SEGRO), a modern warehouse and logistics facility is being built on a part of the investment land located at Bierutowska street. Facilities with a planned usable area of approx. 40,000 m² are under construction on the plot of 10.6 ha. To date, the first stage of approx. 19,500 m² has been completed. For this stage, lease agreements for approx. 16,700 m² have been signed. Infrastructure is being prepared for the subsequent stages of the investment project.

4. Pending projects

Molo Rybackie* (Gdynia)

In 2014, a JV agreement was signed with mLocum for the execution of the first stage of the residential project Yacht Park in the Molo Rybackie area in Gdynia. Design work for the project consisting of 6 residential buildings with the usable area of approx. 9,500 m² is in progress. In the 1st half of 2016, the Group applied for the permit to develop Molo Rybackie. Additionally, work has been commenced on the optimum development concept for the subsequent residential and office stage of the project and for the yacht marina adjacent to the Yacht Park project.

The contest for the architectural and planning concept for the office complex and the surrounding green areas is pending. The contest has been organized with the participation of the Association of Polish Architects.

6. Projects under preparation

Stawki 2 (Intraco City) (Warsaw)

An A class office facility with GLA of approx. 10,000 m² is planned to be built in place of the existing parking lot in front of the Intraco office building. At present, works aimed at updating the architectural concept and commencing the next stage are in progress.

Capex for the project (10,000 m²) amounts to approx. PLN 71 million. The project is planned to be commenced in the 2nd quarter of 2018, and the lease is planned to commence in the 2nd quarter of 2020. The developer's margin on the project amounts to approx. 34%.

8. Projects under preparation

Wilanowska (Warsaw)

On a plot of approx. 1.29 ha at Al. Wilanowska 372 the Group plans to build two commercial facilities with combined GLA of approx. 23,000 m². The Group signed a franchising agreement with Global Hospitality Licensing ("Marriott International"). The hotel part of the project will combine two brands of the international Marriott International hotel brand - the designer concept MOXY and the apartment brand (RESIDENCE INN). At present, the architectural design of the facilities is under preparation and infrastructure is being built. Capex for the first stage of the project - the hotel part (approx. 13,000 m²) amounts to approx. PLN 106.7 million. The Company expects to achieve YoC of approx. 9.3% and earn a developer's margin of 30%. After a period of stabilization, an average occupancy rate of about 66% is expected. The project is planned to be commenced in the 1st quarter of 2018, and the hotel opening is expected in the 1st quarter of 2020.

<p>9. Projects under preparation</p> <p>Lewandów Retail Hub (Warsaw)</p> <p>The Group plans to build office and retail facilities with total GLA of approx. 25,000 m² on a part of the plots with a total area of approx. 25.4 ha. At the same time, the Group is negotiating the possible use of the remaining part of the property with retail chains.</p>	<p>10. Projects under preparation</p> <p>Lewandów (housing estate) (Warsaw)</p> <p>On the property "residential Lewandów" in the Białoleka district of Warsaw (with an area of approx. 39,600 m²) the Group plans to build a housing estate consisting of apartment buildings with a total usable area of approx. 32,000 m² (approx. 530 apartments) in three stages. The tender procedure has been completed and an architectural studio was selected for the project. The architectural concept is currently under preparation. Preparations for infrastructural projects that must be completed to enable the execution of construction projects on the property are pending.</p>
<p>11. Projects under preparation</p> <p>Instalatorów 7C (Warsaw)</p> <p>The initial utility connection conditions were obtained. A contract for preparing design documentation was signed with the 22 Architekci studio. Planning permission was obtained for apartment buildings with a usable area of approx. 4,000 m².</p>	<p>12. Projects under preparation</p> <p>Warehouse project</p> <p>Works on the preparation of 7 properties with warehouse potential and a total area of approx. 250 ha held in the Group's portfolio are under way.</p>
<p>13. Planned projects</p> <p>Retkinia (Łódź)</p> <p>Construction work was completed and the first grocery supermarket was handed over to the tenant in the first half of 2015. In accordance with the Optimum Land Development Study, which was prepared for the whole plot, residential facilities with a total GLA of approx. 280,000 m² and commercial facilities with a total area of approx. 45,000 m² will be built. In the meantime, pre-development work is being carried out (including the installation of cabling for the overhead high voltage power line) in order to increase the project's efficiency through optimum utilization of the property area.</p>	<p>14. Planned projects</p> <p>Bartycka (Warsaw)</p> <p>On the property with an area of 7.6 ha the Group plans to build a residential and commercial complex with an estimated area of approx. 60,000 m². The Optimum Land Development Study has been prepared for the property. At the same time, talks with potential tenants concerning the commercialization of the retail part of the Bartycka project are under way.</p>
<p>15. Planned projects</p> <p>Wilanów (Warsaw)</p> <p>The project consists of the construction of a modern housing estate in place of an existing housing estate from the 1980s. The Optimum Land Development Study has been prepared to facilitate the replacement of existing buildings with new ones. Various concepts for increasing the value of the property are being analysed.</p>	<p>16. Planned projects</p> <p>Jana Pawła II 34 (Warsaw)</p> <p>In accordance with the study, a residential building with service facilities and 97 apartments with a combined area of approx. 4,000 m² will be built on the property. The architectural studio has completed the 1st stage of work and applied for planning permission. Once it is obtained, strategic decisions concerning project execution will be taken.</p>

8. Information on related entities

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

In the first 6 months of 2016 and in 2015, the Group did not conclude any material transactions with related entities on a non-arms' length basis.

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

In the first 6 months of 2016 and in 2015, no advances, loans, guarantees or warranties were granted to members of the Management Boards and Supervisory Boards of Group companies and their relatives and no other agreements were concluded with such persons on the basis of which they would be obliged to render services to Polski Holding Nieruchomości S.A. and its related entities.

As at 30 June 2016 and 31 December 2015, no loans were granted by Group companies to the Management Board and Supervisory Board members or their relatives.

In the first 6 months of 2016, the Group did not enter into any significant transactions with the Management Board and Supervisory Board members or their relatives.

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

As at 30 June 2016 and as at the date of preparation of this report, there were no pending proceedings against Group companies before a court, a court of arbitration or a public administration authority, whose individual or cumulative value

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

10. Significant risk factors affecting current and future financial results

In the course of its business activities, the Polski Holding Nieruchomości Group conducts ongoing risk monitoring and assessment and takes actions aimed at mitigating the effect of risk on the Group's financial position. The main risks to which the Polski Holding Nieruchomości Group is exposed as part of its business activities include:

- ✓ market risk: foreign exchange risk and interest rate risk;

- ✓ liquidity risk and credit risk.

These and other risks to which the Group is exposed are discussed in detail in the Consolidated financial statements for 2015 (Note 5) and in the Directors' Report for the Group (Note 9).

11. Other information

11.1. Dividends

By resolution no. 7 of 22 June 2016, the Annual General Shareholders' Meeting of Polski Holding Nieruchomości S.A. earmarked the amount of PLN 19,623,553.74 million for payment of dividend to the shareholders (i.e. PLN 0.42 per share). 46,722,747 shares of the Company participated in the

dividend. In the said resolution, the Annual General Shareholders' Meeting of the Company set the dividend record date on 17 August 2016 and the dividend payment date on 31 August 2016.

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

Shareholding structure of PHN S.A. as at 31 August 2016 and 12 May 2016

31 August 2016				
	Number of shares	Interest in capital	Number of votes	% of votes
The State Treasury	32,655,617 ¹⁾	69.89%	32,655,617, ¹⁾	69.89%
AVIVA OFE AVIVA BZ WBK	4,647,000 ¹⁾	9.95%	4,647,000, ¹⁾	9.95%
Nationale-Nederlanden OFE	2,800,000 ¹⁾	5.99%	2,800,000, ¹⁾	5.99%
Others	6,620,130	14.17%	6,620,130	14.17%
TOTAL	46,722,747	100.00%	46,722,747	100.00%

¹⁾ According to data of the Annual General Shareholders' Meeting held on 22 June 2016

12 May 2016				
	Number of shares	Interest in capital	Number of votes	% of votes
The State Treasury	32,655,617 ²⁾	69.89%	32,655,617 ²⁾	69.89%
AVIVA OFE AVIVA BZ WBK	4,647,000 ²⁾	9.95%	4,647,000 ²⁾	9.95%
Nationale-Nederlanden OFE	2,817,849 ²⁾	6.03%	2,817,849 ²⁾	6.03%
Others	7,234,952	14.13%	7,234,952	14.13%
TOTAL	46,722,747	100.00%	46,722,747	100.00%

²⁾ According to data of the Extraordinary General Shareholders' Meeting held on 17 February 2016

In the period presented, the number of shares held by Nationale-Nederlanden OFE decreased from 2,817,849 to 2,800,000. As a result, the interest of Nationale-Nederlanden OFE in the Company's capital also decreased from 6.03% to 5.99%. Apart from this change, no other changes were noted in

the structure of the shareholders holding, whether directly or indirectly (through subsidiaries), at least 5% of the total number of votes at the General Shareholders' Meeting of Polski Holding Nieruchomości S.A.

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

According to the confirmations received, Management and Supervisory Board members did not hold any shares of the parent company or the subsidiaries as at 23 August 2016. In the period from 6 May 2016 to 23 August 2016, the number of

shares of Polski Holding Nieruchomości S.A and its subsidiaries held by members of the Management and Supervisory Board did not change.

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

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

Group entities established security for the bank ING Bank Śląski S.A., which is described in note 33 to the interim condensed consolidated financial statements for the 6 months ended 30 June 2016.

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

The Group did not publish any forecasts of its results.

12. Management representations

12.1. concerning the fairness of the preparation of the interim condensed consolidated and separate financial statements

The Management Board of Polski Holding Nieruchomości S.A. hereby represents that, to the best of its knowledge, these interim condensed consolidated and separate financial statements and comparative data have been prepared in accordance with the accounting policies applicable to the Group and the Company and that they give a true, fair and clear view

of the Group's financial position and results of operations. The Management Board of Polski Holding Nieruchomości S.A. represents further that this Directors' Report for the 6-month period ended 30 June 2016 presents the Group's development, achievements and position (including a description of major threats and risks) in a true manner.

12.2. concerning the entity authorized to review the interim condensed consolidated and separate financial statements

The Management Board of Polski Holding Nieruchomości S.A. represents that the entity authorized to review the interim condensed consolidated and separate financial statements,

PricewaterhouseCoopers Sp. z o.o., was selected in accordance with the law.

This interim report was approved by the Management Board of the Parent Company on 31 August 2016.

dr Marcin Marcinkiewicz
Member of the Management Board
in charge of Investments

Piotr Staroń
Member of the Management Board
in charge of Finance

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

Maciej Jankiewicz
President of the Management Board