CONSOLIDATED FINANCIAL STATEMENTS

FOR 2016

PREPARED IN ACCORDANCE WITH IFRS
AS ENDORSED BY THE EU

(DATA IN PLN 000s)

WARSAW

Contents

(amounts in PLN 000s, unless otherwise stated)

1. Selected financial data

No.	SELECTED FINANCIAL DATA	PLN		EUR	
		For the period from 1 Jan 2016 to 31 Dec 2016	For the period from 1 Jan 2015 to 31 Dec 2015	For the period from 1 Jan 2016 to 31 Dec 2016	For the period from 1 Jan 2015 to 31 Dec 2015
I.	Net revenue from sale of products, goods and materials	2 450 750	2 078 010	561 777	496 668
II.	Operating profit (loss)	61 702	54 093	14 144	12 929
III.	Profit (loss) before tax	61 232	53 511	14 036	12 790
IV.	Profit (loss) for the period	50 551	48 356	11 588	11 558
V.	Net cash flows from operating activities	91 000	84 730	20 860	20 251
VI.	Net cash flows from investing activities	(28 116)	(33 815)	(6 445)	(8 082)
VII.	Net cash flows from financing activities	(20 247)	(61 555)	(4 641)	(14 712)
VIII.	Total net cash flows	42 637	(10 640)	9 774	(2 543)
IX.	Total assets	1 062 813	1 017 258	240 238	238 709
X.	Liabilities and liability provisions	436 545	422 354	98 677	99 109
XI.	Non-current liabilities	20 034	24 112	4 528	5 658
XII.	Current liabilities	416 511	398 242	94 148	93 451
XIII.	Equity	626 268	594 904	141 561	139 600
XIV.	Share capital	12 342	13 235	2 790	3 106
XV.	Number of shares	12 342 027	13 235 495	12 342 027	13 235 495
XVI.	Weighted average number of shares	12 086 113	12 506 772	12 086 113	12 506 772
XVII.	Profit (loss) per ordinary share* (in PLN/EUR)	4.18	3.87	0.96	0.92
XVIII.	Diluted profit (loss) per ordinary share** (in PLN/EUR)	4.18	3.87	0.96	0.92
XIX.	Book value per share* (in PLN/EUR)	51.82	47.57	11.71	11.16
XX.	Diluted book value per share** (in PLN/EUR)	51.82	47.56	11.71	11.16
XXI.	Paid out dividend per share (in PLN/EUR)	-	1.33	-	0.32

* calculated using the weighted average number of the Issuer's shares
** calculated using the weighted average diluted number of the Issuer's shares

Weighted average number of shares:
- for 2016: 12 086 113
- for 2015: 12 506 772

Weighted average diluted number of ordinary shares:
- for Q1-Q4 2016: as at 31 December 2016, the 2010 and 2011 tranche of the 2nd Management Options Programme 2010-2012 was fully settled
– for Q1-Q4 2015 (January-December): 12 508 001, taking into consideration the dilutive effect of options granted under the 2010 and 2011 tranches of the 2nd Management Options Programme 2010-2012.

Selected financial data are translated into EUR in the following manner:

1 Items in the statement of profit and loss and statement of cash flows have been translated according to the exchange rate established as the average of exchange rates published by the National Bank of Poland on the last day of each month, which for 2016 was EURPLN 4.3625 and for 2015: EURPLN 4.1839.
2 Balance sheet items and book value / diluted book value are translated using the average exchange rate published by the National Bank of Poland as at the end of the reporting period, as follows: as at 31 December 2016: EURPLN 4.4240; as at 31 December 2015: EURPLN 4.2615.
3 Dividend paid out is translated using the average rate published by the National Bank of Poland on the dividend payment date, which as at 19 June 2015 was EURPLN 4.1715.

(amounts in PLN 000s, unless otherwise stated)

2. Consolidated statement of financial position

Assets	Note	31 Dec 2016	31 Dec 2015*
Non-current assets		**609 180**	**624 116**
Property, plant and equipment	6.3.1 and 6.3.2	386 866	395 840
Investment properties	6.3.3 and 6.3.4	123 441	127 116
Intangible assets	6.3.5 and 6.3.6	4 118	4 635
Goodwill	6.3.7	52 044	52 044
Financial assets	6.3.8	37	37
Non-current loans	6.3.9	263	1 615
Non-current receivables	6.3.10	5 532	6 313
Deferred income tax assets	6.3.11	18 053	22 009
Other non-current prepayments	6.3.12	18 826	14 507
Current assets		**453 633**	**393 142**
Inventories	6.3.13	217 962	199 035
Receivables	6.3.14	80 733	71 248
Income tax receivables		656	1 332
Short-term securities	6.3.15	-	11 138
Prepayments	6.3.16	6 087	4 730
Cash and cash equivalents	6.3.17 and 6.3.40	146 432	103 795
Other financial assets	6.3.18	1 763	1 864
Total assets		**1 062 813**	**1 017 258**

*The Group restated comparative data as a result of a change in presentation (note 6.3.28). The change in presentation had no impact on the total value of assets and equity and liabilities.

(amounts in PLN 000s, unless otherwise stated)

Equity and liabilities	Note	31 Dec 2016	31 Dec 2015
Equity		**626 268**	**594 904**
Share capital	6.3.19	12 342	13 235
Share premium		419 964	471 424
Supplementary capital		99 905	97 558
Management options provision		-	2 588
Reserve capital		72 766	47 661
Own shares		(23 320)	(57 487)
Retained earnings	6.3.20	44 611	19 925
Total equity attributable to owners of the parent		**626 268**	**594 904**
Non-controlling interests		-	-
Total non-current liabilities		**20 034**	**24 112**
Credit facilities, loans and debt instruments	6.3.21	600	1 658
Non-current liabilities	6.3.22	3 472	3 357
Provisions	6.3.23	10 474	14 600
Deferred income tax provision	6.3.24	5 488	4 497
Total current liabilities		**416 511**	**398 242**
Credit facilities, loans and debt instruments	6.3.25	1 122	988
Current liabilities	6.3.26	388 725	369 419
Income tax liabilities		613	426
Provisions	6.3.23	18 734	18 626
Deferred revenue	6.3.27	7 317	8 783
Total equity and liabilities		**1 062 813**	**1 017 258**

Off-balance sheet items are described in note 6.3.41

	31 Dec 2016	31 Dec 2015
Book value	626 268	594 904
Number of shares	12 342 027	13 235 495
Weighted average number of shares	12 086 113	12 506 772
Diluted number of shares	12 086 113	12 508 001
Book value per share (in PLN)	50.74	44.95
Book value per share (in PLN)*	51.82	47.57
Diluted book value per share (in PLN)**	51.82	47.56

* calculated using the weighted average number of the Issuer's shares
** calculated using the weighted average diluted number of the Issuer's shares

Warsaw, 25 April 2017

Signatures of all Management Board members:

Dariusz Kalinowski	President of the Management Board	.... Signature
Cezary Baran	Vice-President of the Management Board, Finance Director	.... Signature

Signatures of persons responsible for book-keeping

Elżbieta Świniarska	Economic Director	.... Signature

(amounts in PLN 000s, unless otherwise stated)

3. Consolidated statement of profit and loss and consolidated statement of comprehensive income

Statement of profit and loss	Note	12 months ended 31 Dec 2016	12 months ended 31 Dec 2015*
Revenue from sales		**2 450 750**	**2 078 010**
- from subsidiaries		-	
Revenue from sale of services	6.3.29	127 197	111 300
Revenue from sale of goods and materials	6.3.30	2 323 553	1 966 710
Cost of sales		**(1 771 855)**	**(1 483 053)**
- to subsidiaries		-	-
Cost of manufacture of services sold		(28 489)	(24 619)
Value of goods and materials sold		(1 743 366)	(1 458 434)
Profit on sales		**678 895**	**594 957**
Other operating revenue	6.3.31	24 285	16 106
Selling costs	6.3.32	(575 502)	(496 847)
Administrative expenses	6.3.32	(56 548)	(50 555)
Other operating expenses	6.3.33	(9 428)	(9 568)
Operating profit		**61 702**	**54 093**
Finance income	6.3.35	946	1 521
Finance costs	6.3.36	(1 416)	(2 103)
Profit before tax		**61 232**	**53 511**
Income tax		(10 681)	(5 155)
Current	6.3.37	(5 635)	(7 071)
Deferred	6.3.38	(5 046)	1 916
Profit for the period		**50 551**	**48 356**
Profit for the period attributable to owners of the parent		50 551	48 356

*The Group restated its comparative data as a result of presentation changes (note 6.3.28). The presentation change had no impact on profit amounts.

Profit (loss) for the period	**50 551**	**48 356**
Number of shares	12 342 027	13 235 495
Weighted average number of ordinary shares	12 086 113	12 506 772
Weighted average diluted number of ordinary shares	12 086 113	12 508 001
Profit (loss) per ordinary share (in PLN)	4.10	3.65
Profit (loss) per ordinary share (in PLN)*	4.18	3.87
Diluted profit (loss) per ordinary share (in PLN)**	4.18	3.87

* calculated using the weighted average number of the Issuer's shares

** Weighted average diluted number of ordinary shares:

(amounts in PLN 000s, unless otherwise stated)

Statement of comprehensive income

	12 months ended 31 Dec 2016	12 months ended 31 Dec 2015
Profit for the period	**50 551**	**48 356**
Other comprehensive income (not subject to reclassification to results):	(423)	(23)
- Revaluation of employee benefit liabilities	(522)	(28)
- Income tax on components of other comprehensive income	99	5
Comprehensive income for the period	**50 128**	**48 333**
Comprehensive income attributable to shareholders of the parent	50 128	48 333

Warsaw, 25 April 2017

Signatures of all Management Board members:

Dariusz Kalinowski — President of the Management Board

....
Signature

Cezary Baran — Vice-President of the Management Board, Finance Director

....
Signature

Signatures of persons responsible for book-keeping

Elżbieta Świniarska — Economic Director

....
Signature

(amounts in PLN 000s, unless otherwise stated)

4. Consolidated statement of changes in equity

	Share capital	Share premium	Supplementary capital	Management options provision	Reserve capital	Own shares	Retained earnings	Total equity
1 Jan 2016	**13 235**	**471 424**	**97 558**	**2 588**	**47 661**	**(57 487)**	**19 925**	**594 904**
Comprehensive income for the 12 months ended 31 Dec 2016	-	-	-	-	-	-	50 128	50 128
2015 profit distribution - transfer to equity	-	-	-	-	25 442	-	(25 442)	-
Share issuance - incentive scheme	7	283	-	(241)	-	-	-	49
Purchase of own shares	-	-	-	-	-	(18 813)	-	(18 813)
Redemption of own shares	(900)	(51 743)	-	-	(337)	52 980	-	-
Reclassification of capital after settlement of all incentive schemes	-	-	2 347	(2 347)	-	-	-	-
31 Dec 2016	**12 342**	**419 964**	**99 905**	**-**	**72 766**	**(23 320)**	**44 611**	**626 268**

	Share capital	Share premium	Supplementary capital	Management options provision	Reserve capital	Own shares	Retained earnings	Total equity
1 Jan 2015	**15 180**	**551 988**	**100 084**	**5 206**	**110 593**	**(164 553)**	**(11 499)**	**606 999**
Comprehensive income for the 12 months ended 31 Dec 2015	-	-	-	-	-	-	48 333	48 333
2014 profit distribution - transfer to equity	-	-	-	-	337	-	(337)	-
Prior-period results of companies entered into consolidation	-	-	-	-	-	-	(44)	(44)
Share issuance - incentive scheme	87	3 708	-	(2 618)	-	-	-	1 177
Purchase of own shares	-	-	-	-	-	(45 033)	-	(45 033)
Redemption of own shares	(2 032)	(84 272)	(2 526)	-	(63 269)	152 099	-	-
Dividend from 2014 profit	-	-	-	-	-	-	(16 528)	(16 528)
31 Dec 2015	**13 235**	**471 424**	**97 558**	**2 588**	**47 661**	**(57 487)**	**19 925**	**594 904**

Warsaw, 25 April 2017

Signatures of all Management Board members:

Dariusz Kalinowski	President of the Management Board	.... Signature
Cezary Baran	Vice-President of the Management Board, Finance Director	.... Signature

Signatures of persons responsible for book-keeping

Elżbieta Świniarska	Economic Director	.... Signature

(amounts in PLN 000s, unless otherwise stated)

5. Consolidated statement of cash flows

Operating activities	12 months ended 31 Dec 2016	12 months ended 31 Dec 2015
Profit (loss) for the period	**50 551**	**48 356**
Adjusted by:	**40 449**	**36 374**
Depreciation / amortisation	48 935	44 503
(Profit) loss on exchange differences	121	(31)
Interest and shares of profit (dividends)	387	(105)
Income tax	10 681	5 155
Profit (loss) on investing activities	(12 388)	(9 534)
Change in provisions	(4 540)	(2 196)
Change in inventories	(18 927)	(33 931)
Change in receivables	2 565	(24 954)
Change in prepayments	(7 114)	(7 807)
Change in current liabilities	25 335	75 181
Other adjustments	166	4
Income tax paid	(4 772)	(9 910)
Net cash from operating activities	**91 000**	**84 730**

Investing activities	12 months ended 31 Dec 2016	12 months ended 31 Dec 2015
Inflows	**37 381**	**42 136**
Disposal of property, plant and equipment and intangible assets	15 801	15 144
Disposal of financial assets	19 317	26 968
Interest received	123	19
Repayment of loans issued	2 140	5
Outflows	**(65 497)**	**(75 951)**
Purchase of property, plant and equipment and intangible assets	(56 608)	(65 511)
Purchase of financial assets	(7 994)	(7 000)
Borrowings granted	(895)	(3 440)
Net cash from investing activities	**(28 116)**	**(33 815)**

(amounts in PLN 000s, unless otherwise stated)

Financing activities	**12 months ended 31 Dec 2016**	**12 months ended 31 Dec 2015**
Inflows	**20 149**	**1 178**
Proceeds from equity issuance	49	1 178
Proceeds from credit facilities and loans	20 100	-
Outflows	**(40 396)**	**(62 733)**
Repayment of borrowings	(20 000)	**-**
Payment of finance lease liabilities	(1 002)	(917)
Interest and fees paid	(582)	(255)
Dividends paid	-	(16 528)
Purchase of own shares	(18 812)	(45 033)
Net cash from financing activities	**(20 247)**	**(61 555)**

Change in cash and cash equivalents	Note	**12 months ended 31 Dec 2016**	**12 months ended 31 Dec 2015**
Change in cash and cash equivalents		42 637	(10 640)
Exchange differences		-	-
Cash and cash equivalents at the beginning of period	6.3.40	**103 795**	**114 435**
Cash and cash equivalents at the end of period	6.3.40	**146 432**	**103 795**

Warsaw, 25 April 2017

Signatures of all Management Board members:

Dariusz Kalinowski — President of the Management Board

....
Signature

Cezary Baran — Vice-President of the Management Board, Finance Director

....
Signature

Signatures of persons responsible for book-keeping

Elżbieta Świniarska — Economic Director

....
Signature

6. Additional information

6.1 Description of Group structure

Name, registered office and economic activities of Group and parent entity

Emperia Group ("Group") focuses on four operating segments, with the main one being the retail segment, made up by the Stokrotka Sp. z o.o. store chain.
The IT segment covers the activities of Infinite Sp. z o.o., which develops IT solutions for industries such as FMCG, automotive, heavy industry, logistics, SHE and DIY.
The property segment manages Emperia Group's property assets. The segment invests in facilities intended for retail operations - mini-galleries and shopping parks up to 2 000 sqm. The central management segment covers management functions, holding services and advisory within the Group.

The Company, which uses the trading name Emperia Holding S.A., is registered under KRS no. 0000034566 by the District Court for the Capital City of Warsaw in Warsaw, 13th Commercial Division of the National Court Register.

The parent's registered office is located in Warsaw, ul. Puławska 2, building B, postal code 02-566 (the registered office address was changed on 15 April 2016).

Since 1 April 2007, the principal object of Emperia Holding S.A. is activities of holding companies (PKD 70.10.Z). The company is a VAT payer, with NIP no. 712-10-07-105.

The Parent's shares have been listed on the Warsaw Stock Exchange since 2001.

The financial year for Group companies is the calendar year. Group companies have been established for an indefinite period of time.

These consolidated financial statements are prepared for the period from 1 January 2016 to 31 December 2016, and the comparative financial data covers the period from 1 January 2015 to 31 December 2015.

The consolidated financial statements were drawn up on the assumption that the business will continue as a going concern and that there are no circumstances such as would pose a threat to the continuing operations of Group companies in the future.

Emperia Group's consolidated financial statements are available in the Investor Relations section at the website www.emperia.pl.

Information on consolidation

Emperia Holding S.A. is the Group's parent and prepares the Group's consolidated financial statements.

As at 31 December 2016, consolidation included Emperia Holding S.A. and 8 subsidiaries: Stokrotka Sp. z o.o., Infinite Sp. z o.o., Elpro Ekon Sp. z o.o. S.K.A., P3 EKON Sp. z o.o. S.K.A., Ekon Sp. z o.o., Elpro Development S.A., Eldorado Sp. z o.o., P5 EKON Sp. z o.o. S.K.A.
During 2016, Emperia Group's structure was subject to changes. A cross-border merger of Elpro Development S.A. (the acquiring company) with EMP Investment Limited (the acquired company) took place on 14 November 2016. Moreover, all investment certificates in IPOPEMA 55 FIZAN that were not held by Emperia Group companies were sold in the fourth quarter of 2016.

(amounts in PLN 000s, unless otherwise stated)

Emperia Group structure as at 31 December 2016

Entity name	Registered office	Main economic activity	Registration authority	Type of control	Means of consolidation	Acquisition date / date from which significant control is exerted	% of share capital held	Share of the total number of votes at general meeting
Stokrotka Sp. z o.o.	20-209 Lublin, ul. Projektowa 1	Retail sale of food, beverages and tobacco	16977, District Court for Lublin-Wschód based in Świdnik, 6th Commercial Division of the National Court Register	Subsidiary	Full	1999-01-27	100.00%	100.00%
Infinite Sp. z o.o.	20-209 Lublin, ul. Projektowa 1	IT operations	16222, District Court for Lublin-Wschód based in Świdnik, 6th Commercial Division of the National Court Register	Subsidiary	Full	1997-03-11	100.00%	100.00%
ELPRO EKON Sp. z o.o. S.K.A. (1)	20-209 Lublin, ul. Projektowa 1	Property development	392753, District Court for Lublin-Wschód based in Świdnik, 6th Commercial Division of the National Court Register	Subsidiary	Full	2001-02-15	100.00%	100.00%
P3 EKON Sp. z o.o. S.K.A. (2)	20-209 Lublin, ul. Projektowa 1	Property management	407301, District Court for Lublin-Wschód based in Świdnik, 6th Commercial Division of the National Court Register	Subsidiary	Full	2007-11-29	100.00%	100.00%
Elpro Development S.A.	02-566 Warsaw, ul. Puławska 2B	Renting and operating of own or leased real estate	KRS no. 509157, District Court for the Capital City of Warsaw in Warsaw, 13th Commercial Division of the National Court Register	Subsidiary	Full	2010-09-06	100.00%	100.00%
EKON Sp. z o.o. (3)	20-209 Lublin, ul. Projektowa 1	Property management	367597, District Court for Lublin-Wschód based in Świdnik, 6th Commercial Division of the National Court Register	Subsidiary	Full	2010-09-06	100.00%	100.00%
Eldorado Sp. z o.o.	20-209 Lublin, ul. Projektowa 1	Activities of head offices; management consultancy activities	400637, District Court for Lublin-Wschód based in Świdnik, 6th Commercial Division of the National Court Register	Subsidiary	Full	03-10-2011	100.00%	100.00%
P5 EKON Sp. z o.o. S.K.A. (4)	20-209 Lublin, ul. Projektowa 1	Renting and operating of own or leased real estate	425738, District Court for Lublin-Wschód based in Świdnik, 6th Commercial Division of the National Court Register	Subsidiary	Full	24-11-2011	100.00%	100.00%

(amounts in PLN 000s, unless otherwise stated)

(1) indirectly through Elpro Development S.A. (80 825 shares), EKON Sp. z o.o. (contribution)
(2) indirectly through Elpro Development S.A. (138 427 shares), EKON Sp. z o.o. (contribution)
(3) indirectly through Elpro Development S.A.
(4) indirectly through Elpro Development S.A. (56 047 shares), EKON Sp. z o.o. (contribution)

Entity name	Registered office	Share capital	Emperia's share in capital (% as at the end of the reporting period)	Emperia's share of voting rights (% as at the end of the reporting period)
"Podlaskie Centrum Rolno-Towarowe" S.A. (1)	Białystok ul. Gen. Wł. Andersa 40	11 115	0.30%	0.60%

(1) indirectly by P3 EKON Sp. z o.o. S.K.A

6.2 Description of key accounting principles

6.2.1 Basis for preparing consolidated financial statements

The consolidated financial statements are prepared under the historical cost convention, except for financial assets measured at fair value.

Emperia Holding S.A.'s Management Board approved these consolidated financial statements on the date on which they were signed.

6.2.2 Statement of compliance

The consolidated financial statements of Emperia Holding S.A. were prepared in accordance with International Financial Reporting Standards (IFRS) and the related interpretations concerning interim financial reporting published in the form of Commission Regulations and endorsed by the European Union.
The consolidated financial statements reliably present the Group's financial situation, financial performance and cash flows.

The consolidated financial statements were prepared in accordance with the Ordinance of the Minister of Finance dated 19 October 2005 on current and periodic information disclosed by issuers of securities.

6.2.3 Segment reporting

Segment reporting identifies operating segments, which are a component of the Group:
- that engages in business activities from which it may earn revenues and incur expenses,
- whose operating results are reviewed regularly by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and
- for which discrete financial information is available.

The chief decision maker to make decisions about resources to be allocated and assess segment performance is the Management Board of Emperia Holding. As a result of analysing the means of exercising supervision over the Company's business, its organisational structure, internal reporting system and current management model, and taking into consideration the aggregations criteria and quantitative thresholds set out in IFRS 8, Emperia Group's operating activities have been grouped into three operating segments, defined as follows:

1. **Retail** (retail segment), covering all operations of the following subsidiary: Stokrotka Sp. z o.o. and revenue from commercial intermediary contracts, together with statistically settled costs tied to this revenue, transferred from the central management segment (from Emperia Holding S.A.). The retail segment generates revenue from the retail sales of FMCG products at Stokrotka stores.

2. **Property** (property segment), covering Emperia Group's property assets, including the following companies: Elpro Ekon Sp. z o.o. S.K.A., P3 EKON Sp. z o.o. S.K.A., Ekon Sp. z o.o., P5 EKON Sp. z o.o. S.K.A., Elpro Development S.A. and the property segment carved out of Emperia Holding S.A. The property segment generates revenue from renting its properties.

4. **Central Management** (central management segment), covering management functions, holding services and advisory within the Group. The segment comprises the following companies: Emperia Holding S.A., Eldorado Sp. z o.o.;

(amounts in PLN 000s, unless otherwise stated)

3. IT (IT segment), covering the operations of Infinite Sp. z o.o. - an IT services provider.

Operating segments are presented in a manner that is consistent with internal reporting provided to the chief operating decision-maker. The chief operating decision-maker for Emperia Group's operating segments is the Management Board of Emperia Holding S.A., which assesses results and makes decisions with regard to resource allocation.

Results for all segments are measured using the following: gross profit on sales, EBITDA, operating result, gross result, net result and revenue.

The Group applies uniform accounting principles for all segments. Inter-segment transactions are done on market terms. These transactions are subject to exclusion from consolidated financial statements and are presented in the "exclusions" column in the segment results information below.

Emperia Group's operating segments in 2016:

	Retail	Property	Central management	IT	Consolidation exclusions	Total
Segment revenue	2 404 435	69 704	995	37 648	62 032	2 450 750
External revenue	2 404 423	22 094	(9)	24 241	-	2 450 750
Inter-segment revenue	12	47 610	1 004	13 407	62 032	-
Total segment costs	(2 392 989)	(40 134)	(4 615)	(29 889)	(63 722)	(2 403 905)
Profit on sales	11 446	29 570	(3 620)	7 759	(1 690)	46 845
Result on other operating activities	2 339	12 436	191	(13)	96	14 857
Result on financing activities	(2 490)	1 545	6 426	223	6 174	(470)
Gross result	11 295	43 551	2 997	7 969	4 580	61 232
Tax	(2 901)	(6 615)	693	(1 576)	282	(10 681)
Net segment result	**8 394**	**36 936**	**3 690**	**6 393**	**4 862**	**50 551**

	Retail	Property	Central management	IT	Consolidation exclusions	Total
Segment assets / liabilities	538 025	1 258 229	436 224	18 793	1 188 458	1 062 813
Goodwill	39 200	12 844	-	-	-	52 044

	Retail	Property	Central management	IT	Consolidation exclusions	Total
Capital expenditures	(54 113)	(1 828)	-	(917)	(250)	(56 608)
Depreciation / amortisation	(37 215)	(11 728)	(379)	(1 271)	(1 658)	(48 935)

Emperia Group's operating segments in 2015:

	Retail	Property	Central management	IT	Consolidation exclusions	Total
Segment revenue	2 030 573	70 920	1 538	38 111	63 132	2 078 010
External revenue	2 030 419	22 663	104	24 823	-	2 078 010
Inter-segment revenue	154	48 257	1 434	13 288	63 132	-
Total segment costs	(2 020 635)	(40 470)	(4 499)	(29 637)	(64 786)	(2 030 455)
Profit on sales	9 938	30 450	(2 961)	8 474	(1 654)	47 555
Result on other operating activities	(577)	7 468	664	(478)	539	6 538
Result on financing activities	(3 120)	1 866	11 828	321	11 477	(582)
Gross result	6 241	39 784	9 531	8 317	10 362	53 511
Tax	844	(4 278)	(125)	(1 641)	(45)	(5 155)
Net segment result	**7 085**	**35 506**	**9 406**	**6 676**	**10 317**	**48 356**

	Retail	Property	Central management	IT	Consolidation exclusions	Total
Segment assets / liabilities	525 406	1 251 261	453 689	19 755	1 232 853	1 017 258
Goodwill	39 200	12 844	-	-	-	52 044

	Retail	Property	Central management	IT	Consolidation exclusions	Total
Capital expenditures	(52 643)	(12 899)	-	(1 408)	(1 439)	(65 511)
Depreciation / amortisation	(32 819)	(11 847)	(526)	(981)	(1 670)	(44 503)

6.2.4 Functional currency

Items in the consolidated financial statements are measured in the currency of the economic environment in which the Group operates, which is the Group's functional currency.

The functional and presentation currency of all items in the consolidated financial statements is PLN. Data in the consolidated financial statements and all explanatory data is presented in PLN 000s (unless stated otherwise).

Drafting consolidated financial statements in PLN 000s necessitates rounding up, which may result in a situation where the sum totals presented may not exactly equal the sum totals for individual analytical items.

6.2.5 Changes in adopted accounting principles

The Group implements new IFRS standards and interpretations such as are applicable in the respective reporting periods. The Group specifies what changes were adopted in all consolidated financial statements, together with the effects they had on the consolidated financial statements and comparative data.

6.2.6 Application of standards and interpretations effective from 1 January 2016

The following standards, amendments and interpretations are applicable to the Group from since 1 January 2016:

a) Defined Benefit Plans: Employee Contributions - Amendments to IAS 19

Amendments to IAS 19 Employee Benefits were published by the International Accounting Standards Board (IASB) in November 2013. The amendments allow contributions from employees to be recognised as a reduction in the service cost in the period in which the related service is rendered rather than attributing
such contributions to periods of service if the amount of the contributions is independent of the number of years of service.

b) Annual improvements to IFRSs 2010-2012

In December 2013, the IASB published Annual Improvements to IFRSs 2010–2012 Cycle, which amend seven standards. The amendments refer to changes in presentation, recognition and measurement and contain terminology and editing changes.

c) Amendments to IFRS 10, IFRS 12 and IAS 28 - Investment entities: Applying the Consolidation Exception

On 18 December 2014, the IASB published amendments focusing on three areas. The first one deals with consolidation of intermediate investment entities. Pursuant to the introduced amendments, intermediate investment entities shall not be subject to consolidation and, furthermore, the IASB clarified the term "services that relate to the parent's investment activities." Another area of changes concerns an exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity. The last element of changes concerns the possibility of selecting the accounting policy of equity-accounted investment entities. Amendments to IFRS 10, IFRS 12 and IAS 28 are effective from 1 January 2016, with early application permitted.

d) Amendments to IAS 27 - Equity Method in Separate Financial Statements

On 12 August 2014, the IASB published amendments allowing entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendments to IAS 27 are effective from 1 January 2016, with early application permitted.

e) Amendments to IAS 1 - Disclosure Initiative

On 18 December 2014, the IASB published amendments to IAS 1, emphasising the concept of materiality, in connection with which separate disclosures need not be presented even when a standard requires a specific disclosure. Notes in financial statements need not be presented in a specific order - entities can apply any order. Entities should disaggregate items in the statement of financial position and statement of profit or loss and other comprehensive income as relevant, and aggregate items in the statement of financial position if such items specified in IAS 1 are not separately material. When presenting sub-totals in the statement of financial position and statement of profit or loss and other comprehensive income, detailed criteria and requirements regarding reconciliation and presentation shall be added. In addition, it shall be clarified that an entity's share of other comprehensive income of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss, as per IAS 1. The amendments to IAS 28 are effective from 1 January 2016, with early application permitted.

f) Amendments to IFRS 2012-2014

On 25 September 2014, the IASB published annual improvements to IFRS 2012-2014, containing amendments to four standards. In IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, specific guidance was added regarding cases in which an entity reclassifies an asset to/from held for sale to held for distribution. The amendment to IFRS 7 Financial Instruments: Disclosures concerns withdrawal of offsetting disclosure requirements in preparing condensed interim financial statements. It also adds additional guidance to clarify whether a servicing contract is considered as continuing involvement in a transferred asset for the purpose of determining the disclosures required. IAS 19 Employee Benefits introduces an amendment concerning change in discount rates for currencies where there is no developed market for high-quality corporate bonds. IAS 34 Interim Financial Reporting clarifies the meaning of 'elsewhere in the interim report' in relation to the rules and location for disclosing information about material events and transactions. These amendments will be prospectively effective for reporting periods beginning on or after 1 January 2016.

g) Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation

On 12 May 2014, the IASB amended IAS 16 Property, plant and equipment and IAS 38 Intangible assets in order to clarify that a revenue-based method is not considered to be an appropriate manifestation of consumption. The revenue generated from activities that use a given asset usually reflect factors other than the consumed economic benefits from that asset. Revenue is not by default an appropriate manifestation of consumption of the economic benefits deriving from intangible assets. These amendments will be prospectively effective for reporting periods beginning on or after 1 January 2016.

h) Amendments to IFRS 11 Acquisition of an interest in a joint operation

On 6 May 2014, the IASB issued amendments to IFRS 11 Acquisition of an interest in a joint operation. The introduced changes require an acquisition of an interest in a joint operation be subject to the same principles as in the case of business combinations. Such recognition is also to be applicable to acquisitions of additional interests in a joint operation, while retaining joint control. Additional interests acquired will be measured at fair value, and those held previously will not be re-measured. These amendments will be prospectively effective for reporting periods beginning on or after 1 January 2016.

i) Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

On 30 June 2014, the IASB published amendments that change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms. The IASB decided that bearer plants should be accounted for in the same way as property, plant and equipment in IAS 16 because their operation is similar to that of manufacturing. The amendments include them in the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41. These amendments are prospectively effective for reporting periods beginning on or after 1 January 2016.

Impact of the above standards on the entity's financial statements

The Group estimates that the adoption of the above amended standards and new interpretations do not have a significant impact on the financial statements for 2016.

Earlier application of standards and applications:

In preparing these financial statements, the Group decided against the earlier application of any standards.

Standards that have been published but are not yet in force:

a) IFRS 9 Financial Instruments

On 24 July 2014, the IASB issued a full version of the new standard IFRS 9 Financial Instruments. This standard is a comprehensive set of accounting principles relating to financial instruments and it is expected to be effective from 1 January 2018. IFRS 9 will supersede the existing IAS 39 and contains guidelines regarding, among others, qualification and measurement of financial assets, calculation and recognition of impairment of financial assets, hedge accounting, recognition of the effects of changes in the fair value of financial liabilities resulting from changes in own credit risk. The majority of the above concepts had already been issued in the past. The final draft of IFRS 9 includes amended (comparing to the drafts published in 2009 and 2010) principles for classification of financial instruments, defines a new category - 'measured at fair value through other comprehensive income,' and establishes principles for calculating and recognising impairment based on the expected loss model. These amendments will be prospectively effective for reporting periods beginning on or after 1 January 2018.

b) IFRS 15 Revenue from Contracts with Customers

On 28 May 2014, the IASB issued a new standard concerning recognition of revenue - IFRS 15 Revenue from Contracts with Customers. The above standard specifies principles for recognition of all types of revenue resulting from contracts with customers (clients). The standard does not apply only to contracts that are covered by IAS/IFRS concerning leasing, insurance contracts and financial instruments. Pursuant to IFRS 15, an entity should recognise revenue in such manner as to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. As regards identifying a contract, IFRS 15 introduces the requirement that the entity assesses whether receiving payment from a customer is likely. IFRS 15 will be effective for reporting periods beginning on or after 1 January 2018.

Impact of the above standards on the entity's financial statements

The Group estimates that adopting the above amended standards and new interpretations will not have a significant impact on the Company's financial statements.

Earlier application of standards and applications:

In preparing these financial statements, the Group decided against the earlier application of any standards.

Standards and interpretations not yet endorsed by the European Union:

a) New standard IFRS 14 Regulatory Deferral Accounts

On 30 January 2014, the IASB issued a new standard the objective of which is to increase the comparability of financial statements of rate-regulated entities. This standard provides a framework for recognising items constituting revenue or costs qualified for recognition as a result of the rate-regulating laws in effect and which do not qualify as assets or liabilities under the requirements of other IFRSs.

b) IFRS 16 Leases

On 13 January 2016, the IASB published a new standard concerning recognition, presentation and scope of disclosure for leases. The standard introduces a uniform model that replaces the existing division of leases into operating and financial. Lessees will be required to recognise assets and liabilities for all lease contracts executed for a period longer than 12 months (except for assets of low value) and depreciate the asset separately, without interest from the liability. As regards lease recognition rules for lessors, IFRS 16 is in line with IAS 17. As a result, the lessor will continue to classify leases as operating and financial. IFRS 16 will be effective for reporting periods beginning on or after 1 January 2019.

c) Amendments to IFRS 10 and IAS 28: Sales or contributions of assets between an investor and its associate/joint venture

On 11 September 2014, the IASB published amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures. The amendments introduce the requirement that the gain or loss resulting from the sale or contribution to an associate or a joint venture of assets that constitute a business as defined in IFRS 3 is recognised in full. Partial recognition of the gain or loss resulting will be applicable if the transaction concerns assets that do not constitute a business, even if such assets were held by a subsidiary.

d) Amendments to IAS 12 - Recognition of Deferred Tax Assets for Unrealised Losses

On 19 January 2016, the IASB published amendments to IAS 12 aiming to clarify the conditions for recognising deferred income tax assets resulting from unrealised losses on debt instruments classified as available-for-sale. IAS 12 will be effective for reporting periods beginning on or after 1 January 2017.

e) Amendments to IAS 7 - Disclosures

On 29 January 2016, the IASB published amendments to IAS 7 aiming to introduce a requirement to disclose changes in liabilities arising from financing activities connected and not connected with financing cash flows. IAS 7 will be effective for reporting periods beginning on or after 1 January 2017.

f) Clarifications to IFRS 15 Revenue from Contracts with Customers - Amendments to IFRS 15

On 12 April 2016, the IASB published amendments to a new standard concerning revenue, explaining certain requirements and introducing additional simplifications to transition rules. The published amendments have no impact on the main rules of the standard, just clarify their application. The amendments clarify how to identify performance obligations, that an entity determines whether it is a principal or an agent for each specified good or service promised to the customer and could be a principal for some specified goods or services and an agent for others and how to determine whether a licence is transferred at a point in time or over time. Aside from the above, two additional practical expedients were provided to reduce complexity and costs related to first-time adoption of the standard. Amendments to IFRS 15 will be effective from 1 January 2018.

g) Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2

On 20 June 2016, the IASB issued Amendments to IFRS 2. These amendments introduce additional guidelines for the accounting for cash-settled share-based payment transactions and add an exception permitting the accounting for equity-based instruments to be recognised if such accounting for share-based payments was divided into equity instruments given to an employee and a cash payment to tax authorities. Amendments to IFRS 2 will be effective from 1 January 2018.

h) Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4

On 12 September 2016, the IASB issued Amendments to IFRS 4. The amendments address concerns about issues arising from implementing IFRS 9 Financial Instruments before the new insurance contracts Standard comes into effect, which the Board is working on. In order to avoid volatility of results in connection with the implementation of IFRS 9, amendments to IFRS 4 introduce two permissible approaches: the overlay approach and the deferral approach. Amendments to IFRS 4 will be effective from 1 January 2018.

i) Annual improvements to IFRSs 2014-2016

On 8 December 2016, the IASB published Annual Improvements to IFRSs 2014–2016 Cycle, which amend three standards: IFRS 12 Disclosure of Interests in Other Entities, IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 28 Investments in Associates and Joint Ventures These amendments contain clarifications and changes related to the scope of the standards, recognition and measurement as well as terminology and editing changes.

j) Amendments to IAS 40: Transfers of Investment Property

On 8 December 2016, the IASB published amendments to IAS 40, which clarify requirements for transferring to and from investment property. The amendment applies to annual periods beginning on or after 1 January 2018.

k) IFRIC 22: Foreign Currency Transactions and Advance Consideration

On 8 December 2016, the IASB published amendments to IFRIC 22, which clarify the accounting rules for transactions where one entity receives or provides an advance consideration in a foreign currency. The guidelines apply to annual periods beginning on or after 1 January 2018.

Earlier application of standards and applications:

The Group decided against the early application of the new standards and interpretations that will enter into force after the end of the reporting period.

Impact of the above standards on the entity's financial statements

According to the Management Board, IFRS 16 Leases might have material impact on the Group's financial statements. Within the Retail Segment, the Group rents premises in which it conducts retail sales. This renting activity is currently presented in the Group's financial statements as operating leasing. According to IFRS 16, from 2019 the Group will have to recognise assets and liabilities arising under this type of agreement in the statement of financial position.

According to the Management Board, the above standards will not have a significant impact on the financial statements in the period following their adoption.

6.2.7 Significant accounting estimates and judgements

Preparing financial statements in accordance with EU IFRS requires that the Management Board use certain accounting estimates and assumptions concerning future events which may have an impact on the value of assets, liabilities, revenues and costs presented in current and future financial statements. Estimates and assumptions are subject to systematic verification, based on the management's best knowledge, historical experiences and expectations regarding future events such as are presently justified and rational. In certain significant issues, the management uses independent experts' opinions. However, such estimates and judgements may contain a margin of error, and the actual results may differ from estimates.

The effects of changes in estimated values are recognised prospectively: in the result of the period in which the estimate was changed or in the present-period result and in future periods.

Areas where estimates, judgements and assumptions had a significant importance to these consolidated financial statements:

Economic life-cycle of property, plant and equipment

Non-current assets, comprising mainly property, plant and equipment and intangible assets constitute a major part of the Group's assets. Changes in the intended purpose of these assets, technological progress and factors that the Group has no influence over (e.g. market conditions) might result in a change of the adopted economic life-cycles. Each year, the Group verifies estimates concerning economic life-cycles for all categories of non-current assets, taking into consideration the following: physical usage, technological ageing, intensity of operation, life-cycles of similar assets, expected period in which economic benefits from the asset will be obtained.

Measurement of employee benefit provisions

As regards employee benefits, the Group's companies are not a party to any remuneration agreements or collective labour agreements and do not have employee pension programmes.

The Companies estimate their employee benefit provisions post-retirement and likely costs. The present value of employee benefit liabilities depends on several factors specified using actuarial methods and using certain assumptions. The main assumptions concerning employee benefit provisions and an analysis of the sensitivity of measurement results to changes in these assumptions are presented in note 6.3.23.

Furthermore, the Group makes estimates for other employee benefits: untaken holidays, unsettled overtime, bonuses and awards payable after the reporting period.

Impairment of trade receivables

Impairment of trade receivables is recognised when there is objective proof that the Group will not be able to receive all due amounts as per the original terms of the transaction. Indications that trade receivables are impaired can include: debtor's serious financial problems, likelihood that the debtor will declare bankruptcy or will seek an arrangement procedure, significant delays in payment. Impairment of receivables is recognised using an individual assessment of the realness of the receivable, taking into consideration collateral and the degree of risk for each receivable.

Detailed information about impairment of trade receivables is presented in note 6.3.14.

Impairment tests for goodwill and interests in subsidiaries

A cash-generating unit where goodwill is assigned is subject to annual impairment testing. Impairment tests for investments in subsidiaries are conducted when there are indications of potential impairment. Impairment tests are conducting using discounted cash flows based on financial projections. Financial forecasts for cash-generating units are based on a number of assumptions, some of which are beyond the Group's control. A description of assumptions for goodwill impairment tests are presented in notes 6.3.76.3.8.

Measurement of inventories

At the balance sheet date, commercial goods inventories are measured according to purchase prices, not lower than the net realisable values. The Group individually assesses the usefulness of inventories, taking into account quantity of goods, turnover and historic data. Based on such analysis and the application of estimates and judgements, impairment losses on inventories are recognised up to the amounts that the Group expects to receive in the future from the sale of these assets.

Moreover, the value of inventories as at the balance sheet date is reduced by a portion of the value of discounts received from suppliers that pertain to unsold goods.

Detailed information about impairment of inventories is presented in note 6.3.13.

Deferred income tax assets and liabilities (including the likelihood that a deferred income tax asset will be realised)

Preparing financial statements involves, among other things, estimated of the Companies' tax results by their respective management boards. This process includes an assessment of the present tax situation and an estimation of the temporary differences being the consequence of diverging tax and balance sheet approaches. The result of temporary differences is either a deferred tax asset (in the case of negative differences) or a provision (in the case of positive differences). Negative temporary differences and tax losses that can be deducted from income in future periods indicate that the income tax base will be reduced in the future. Calculating deferred tax assets is thus based on the likelihood that the entity will generate taxable income in the future that will make it possible to offset negative temporary differences and tax losses. Estimates based on results generated in previous reporting periods and forecasts for future tax profits are required to measure deferred tax assets. Detailed information about deferred income tax assets and liabilities is presented in notes 6.3.11 and 6.3.24.

Provisions

The Group recognises provisions when there is a present legal or customarily expected obligation on the company resulting from past events and it is likely that meeting this obligation will result in an outflow of resources containing economic benefits and this obligation may be reliably estimated. The Group recognises provisions based on the best estimates from Group companies' management boards of expenditures necessary to meet the present obligation as at the balance sheet date. Information on provisions is presented in note 6.3.23.

6.2.8 Correction of errors

Errors may relate to the recognition, measurement and presentation of items in financial statements, or to information disclosures. Errors identified during the preparation of financial statements are adjusted in the statements being prepared. Errors identified in subsequent reporting periods are adjusted by amending the comparative data presented in the financial statements for the period in which they were identified. The Group corrects prior-period errors using the retrospective approach and retrospective restatement of data, as long as this is practicable.

6.2.9 Property, plant and equipment

The Group recognises individual usable items that fulfil IAS 16 criteria as property, plant and equipment if their acquisition price (cost of manufacture) is at least PLN 1 000, with the following exceptions in particularly:

- computer equipment,
- pallet trucks,
- store carts,
- high bay pallet racks,
- lockers,

which, given the specific nature of the Company's operations and their high volume, constitute a significant asset group, the Group recognises as property, plant and equipment regardless of the purchase price (cost of manufacture).

Again due to the nature of the Company's operations, the following are not classified as property, plant and equipment, even though they meet the value criteria:

- office furniture,
- PVC curtains,

for which the value criterion was established at PLN 3 500 .
Property, plant and equipment items are recognised at purchase price or cost of manufacture less depreciation and impairment.
The Group's property, plant and equipment also includes property, plant and equipment under construction and investments in third-party tangible assets and acquired rights to perpetual usufruct of land.
The initial value of property, plant and equipment includes the purchase price less any costs directly related to the purchase and adaptation of a given asset for commercial use. A portion of borrowing costs is included in the initial value.
The cost of upgrades is included in the carrying amount of property, plant and equipment if it is probable that economic benefits will flow to the Group, and upgrade costs may be reliably measured. All other expenses related to property, plant and equipment repairs and maintenance are recognised in the statement of profit and loss (as costs appropriate to these assets' function) in the reporting period in which they are incurred.
Land is not subject to depreciation. Other property, plant and equipment items are depreciated throughout their useful economic life. Straight-line depreciation is used, starting from when the asset is entered into use.

The Group has adopted the following periods of useful economic life for the particular groups of property, plant and equipment (period of right granted or expected use):

- Buildings and structures: 10 to 40 years
- Technical equipment and machinery: 5 to 10 years
- Computer equipment: 1.5 to 5 years
- Means of transport: 5 to 7 years
- Other: up to 10 years

The Group verifies periodically, but at least at the end of each financial year, the adopted periods of useful economic life for property, plant and equipment, residual values and depreciation approach, and the resulting changes in these estimates are applied in subsequent financial years (prospectively).
Due to the specific nature of its operations, the Group frequently incurs expenditures on investments in third-party facilities. This applies to leased warehousing and retail facilities. For these assets, the

Group specifies periods of useful economic life of expenditures in line with the lease period. If a lease contract is not renewed, the depreciation period is extended.

At the end of each reporting period, the Group tests property, plant and equipment for impairment and the necessity to recognise impairment losses. This happens when the Group gains sufficient certainty that a given asset will not yield the expected economic benefits in the future or that those will be significantly lower.

Impairment losses are recognised in the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and the usable value.

Upon the sale of an item of property, plant and equipment, its initial value and accumulated depreciation are taken off the books, and the result of the disposal is recognised through profit or loss under other operating revenue or other operating costs. The result on the sale of property, plant and equipment is recognised, after offsetting, through profit or loss.

Regardless of whether a given asset constitutes a single item of property, plant and equipment, its elements may have different periods of useful economic life. If certain criteria are met as regards the recognition of property, plant and equipment, all of the costs of such an item may be divided into its elements, recognising each one separately (components). Such recognition necessitates, however, the application of depreciation rates appropriate to the useful period of a given component, taking into consideration its period of useful economic life.

In other cases, expenses connected with the use of property, plant and equipment, together with the replacement of components, are recognised in the statement of profit and loss upon incurrence.

6.2.10 Borrowing costs

Borrowing costs are capitalised as part of the cost of manufacture of property, plant and equipment, investment properties and intangible assets. Borrowing costs comprise interest calculated using effective interest rates, finance lease liabilities and exchange differences arising in connection with external financing up to an amount corresponding to the correction of interest costs.

Proceeds from investments resulting from short-term investing of external borrowed funds intended for the purchase or manufacture of an asset being adapted decrease the value of borrowing costs which are subject to capitalisation.

An asset being adapted is an asset which requires a substantial amount of time in order to bring it to working condition for its intended use. The substantial amount of time in order to bring an asset to working condition for its intended use is understood by the Group to be 12 months.

Commissions on long-term financing raised by the Company are settled over time at adjusted purchase price (amortised cost) using effective interest rates and with application of the materiality principle.

6.2.11 Non-current assets held for sale

The Group classifies non-current assets as held for sale (or disposal groups) if their carrying amount will be recovered through sale rather than through further use. This condition is met when there is a high likelihood that a sale transaction will take place and the asset (disposal groups) in its current form is available for immediate use. Classification of non-current assets as held for sale assumes the management's intent to complete the sale transaction within one year from the reclassification date. Non-current assets held for sale (or disposal groups) are measured at the lower of carrying amount and fair value less costs to sell.

If the fair value is lower than the carrying amount, the difference is recognised as an impairment loss in the profit and loss statement. The reversal of an impairment loss is also done through the profit and loss statement, up to the amount of the impairment loss.

6.2.12 Intangible assets

Intangible assets are recognised at purchase price adjusted by amortisation and impairment losses.
The Group has adopted the following periods of useful economic life for the particular groups of intangible assets:

- Trademarks and licences - 5 years
- Computer software and author's rights - 2 to 5 years
- Property rights - 5 years

Straight-line depreciation is used, starting from when the asset is entered into use.
Amortisation of intangible assets through profit or loss is recognised in the costs appropriate to the function performed by such assets (administrative expenses, distribution costs, other operating expenses).
Intangible assets not yet handed over for use (in progress) may be recognised at the end of the reporting period. Intangible assets that have not yet been handed over for use are not subject to amortisation, but are tested for impairment.
Intangible assets with undefined useful periods (concerns especially trademarks) and goodwill may be recorded as intangible assets. Goodwill and intangible assets with undefined useful periods are not subject to amortisation. However, they are tested for impairment annually.
Intangible assets acquired through a merger are recognised separately from goodwill, provided that they meet the definition of intangible assets and their value can be reliably established. After initial recognition at fair value, in subsequent reporting periods these intangible assets are treated in the same manner as intangible assets acquired in other transactions.
Goodwill arising on the acquisition of an economic entity is the difference between the cost of the acquisition and the fair values of the acquired assets, liabilities and identifiable contingent liabilities. After initial recognition, goodwill is carried at purchase price less impairment. Goodwill is tested annually or more often to see if there is no indication that it is impaired. In order to perform an impairment test on goodwill, goodwill is allocated to the cash generating unit in which it arose.
Purchased computer software is capitalised up to the amount of costs incurred to purchase, prepare and implement it. Costs connected with development and maintenance of computer software are recognised as costs on the date when they were incurred.
The Group verifies periodically, but at least at the end of each financial year, the adopted periods of useful economic life for intangible assets, the residual values and amortisation approach, and the resulting changes in these estimates are applied in subsequent years (prospectively).
At the end of each reporting period, the Group also tests intangible assets for impairment and the necessity to recognise impairment losses. This happens when the Company gains sufficient certainty that a given asset will not yield the expected economic benefits in the future or that those will be significantly lower. Impairment losses are recognised in the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and the usable value.
Impairment losses are recognised as costs appropriate to the functions performed by the given intangible asset in the period in which impairment was identified, however no later than at the end of the financial year. If the Company gains sufficient certainty that the reason for recognising the impairment loss has ceased to exist, the previously recognised impairment loss is reversed, either in full or partially, through recognition of revenue.

The item of intangible assets is derecognised from the balance sheet when it is sold or when it is no longer expected to yield economic benefits. Gain or loss on the sale/liquidation of intangible assets is established as the difference between net proceeds from the sale (if applicable) and the balance sheet value, and is recognised in other operating revenue or other operating costs.

6.2.13 Property investments

Investment properties are those properties that the Company considers as lease income sources or maintains them due to their growing value, or both of these benefits at the same time. On initial recognition, investment properties are measured at purchase price or cost of manufacture. The measurement takes into consideration transaction costs. The purchase price for investments in properties acquired as a result of a merger is equal to their fair value at transaction date. As at the end of the reporting period, investment properties are measured at purchase price or cost of manufacture less accumulated amortisation and impairment losses.
Amortisation of investment properties (excluding land) is recognised using the straight-line approach throughout the useful period of a given tangible asset.

6.2.14 Financial assets

Investments and other financial assets covered by IAS 39

Investments and other financial assets covered by IAS 39 are assigned to the following categories:
a) Financial assets carried at fair value through profit or loss:
b) Loans and receivables,
c) Investments held to maturity,
d) Available-for-sale financial assets

On initial recognition, a financial asset is measured at fair value, increased, in the case of a component of assets not classified as measured at fair value through profit or loss, by transaction costs, which can be directly attributed.

Classification of financial assets occurs at initial recognition and - where permissible and appropriate - is subsequently verified at the end of each financial year.

a) Financial assets carried at fair value through profit or loss

Financial assets carried at fair value through profit or loss cover assets held for trading and financial assets which upon initial recognition were reclassified to the category of assets carried at fair value through profit or loss.
Financial assets are classified as held for trading if they may be purchased for further sale in the short-term. Derivatives are also classified as held for trading unless they are effective hedging instruments or financial guarantee contracts. Profit or loss on investments held for trading is recognised in the statement of profit and loss.

On initial recognition, financial assets may be classified in the category 'at fair value through profit or loss' if the following criteria are met:

- such qualification eliminates or significantly lowers inconsistencies in recognition when both the measurement and means of recognition of profit and loss are subject to different regulations; or
- the assets are part of a group of financial assets which are managed and evaluated on the basis of fair value in accordance with a documented risk management strategy; or
- the financial assets have embedded derivatives, which should be recognised separately.

b) Loans and receivables

Loans and receivables are financial assets, other than derivatives, that have defined maturities and are not traded on an active market. After initial measurement, loans and receivables are measured at amortised cost using the effective interest rate approach.
Loans and receivables are classified as current assets if they mature in less than 12 months from the end of the reporting period, or as non-current assets if they mature in more than 12 months away from the end of the reporting period.

c) Investments held to maturity

Financial assets other than derivatives whose payments are or can be defined and which have defined maturities, and towards which the Company has a clear intent and is able to hold them to maturity are classified as investments held to maturity are classified as investments held to maturity.
Investments which the Company intends to hold for an indefinite period of time are classified in this category. Other non-current investments that the Company intends to hold to maturity, such as bonds, are measured at amortised cost.
Amortised cost is the amount at which a financial asset or financial liability is measured at initial recognition, less principal repayments and plus or minus any unamortised original premium or discount, as calculated using the effective interest rate method. Amortised cost covers all commissions and interest paid and received by the parties to a contract such as are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.
The profit or loss on investments carried at amortised cost is recognised in the statement of profit and loss when the investment is removed from the balance sheet (derecognition) or upon identifying impairment or if depreciation is completed.
The same principles apply to non-current investments in property as to non-current assets. As regards non-current investments in property, plant and equipment, the effects of the activities connected with determining financial results, such as: sale, liquidation, maintenance costs should be recognised as operating revenue or operating expenses.

d) Available-for-sale financial assets

Available-for-sale financial assets are financial assets other than derivatives such as are designated as available for sale, and those other than:

- loans and receivables,
- investments held to maturity, or
- financial assets carried at fair value through profit or loss.

Available-for-sale financial assets are measured at fair value using various measurement approaches. Gains or losses on available-for-sale investments are recognised in comprehensive income.

Fair value measurement

The Company measures financial assets, such as available-for-sale instruments, at fair value on each balance sheet date.
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement assumes a transaction taking place in the principal market for the asset or liability, or in the absence of a principal market, the most advantageous market for the asset or liability.
The fair value of an asset or liability is measured on the assumption that in establishing a price for the asset or liability market participants act in their best interest.

Fair value hierarchy

The Company categorises the inputs used in valuation techniques into three levels, based on assessment of their availability:
- Level 1 inputs are quoted prices (non-adjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date,
- Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly,
- Level 3 inputs are unobservable inputs for the asset or liability.

If the inputs used to measure the fair value of an asset or liability are categorised into different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the level of the lowest level input that is significant to the entire measurement.

Impairment of financial assets

Each financial asset or group of financial assets is evaluated as to whether there is objective proof of impairment at the end of each reporting period.

If such proof is available in the case of available-for-sale financial assets, accumulated losses recognised in equity - i.e. the difference between the purchase price and the current fair value, less any impairment previously recognised in other comprehensive income - are excluded from equity and recognised in the statement of comprehensive income.

Impairment losses are recognised in the statement of profit and loss, and those concerning equity instruments are not subject to a reversal corresponding with the statement of profit and loss. The reversal of an impairment loss on debt instruments is recognised in the statement of profit and loss if - during reporting periods subsequent to the recognition of an impairment loss - the fair value of these instruments increases as a result of events occurring thereafter.

If objective proof exists as to the possibility for impairment of loans and receivables and investments held to maturity, the amount of the impairment loss is calculated as the difference between the carrying amount and the present value estimated using future cash flows discounted using the effective interest rate for these assets (i.e. the effective interest rate calculated upon initial recognition - for assets based on a fixed interest rate, and the effective interest rate determined at the last revaluation of assets, if those are based on a variable interest rate). Impairment losses are recognised in the statement of profit and loss. An impairment loss is reversed if it decreased in subsequent periods and such a decrease may be due to events taking place after the impairment loss is recognised. Following the reversal of an impairment loss, the carrying amount of a financial asset may not exceed its amortised cost such as would be calculated if the impairment loss was not originally recognised. The reversal of an impairment loss is recognised in the statement of profit and loss.

If there are indications of an impairment loss on equity instruments not quoted on an active market such as are measured at purchase price (due to there being no reliable way of determining fair value), the amount of an impairment loss is calculated as the difference between the asset's carrying amount and the present value estimated using future cash flows discounted using the current market rate of return of similar financial assets. Such impairment losses are irreversible.

Derivative instruments

Derivatives are measured at fair value as at the end of the reporting period. Derivatives with fair value above zero constitute financial assets and are recognised as such, and derivatives with negative fair value constitute financial liabilities and are recognised as financial liabilities.
Estimated fair value corresponds with the recoverable amount or amount which must be paid in order to close an outstanding position as at the end of the reporting period. Measurement is based on market prices.
Recognition of the effects of changes in fair value or profit and losses on realising derivatives depends on their purpose. Derivatives are classified as either hedging instruments or trading instruments. There are two types of hedging instruments: fair value hedges and cash flow hedges.

6.2.15 Investments in subsidiaries and associates

Subsidiaries are entities directly or indirectly controlled by the Company. Control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control is presumed when the parent acquires more than half of the shares or voting rights of the entity.

An associate is an entity over which the Company has significant influence but not control. In this case, the Company holds a significant, but not a majority, interest in the entity (20%-50%).

All Emperia Group companies are subsidiaries.
The purchase of a subsidiary by the Group is accounted for using the acquisition method. The purchase cost is established at the fair value of the payment, recognised value of non-controlling interests in the acquired entity and the fair value of equity held in the acquired entity, less the net value (fair value) of acquired identifiable assets and assumed liabilities. Identifiable assets acquired and liabilities and conditional liabilities assumed in a merger of economic entities are initially measured at fair value at the acquisition date regardless of any non-controlling interests. The excess of purchase price over the fair value of the Group's share in net acquired identifiable assets is recognised as goodwill. If the purchase cost is lower than the fair value of the acquired entity's net assets, the difference is recognised directly in the statement of comprehensive income. Transaction costs are recognised in the statement of profit and loss when they are incurred.

All transactions, balances, revenues and costs between related parties subject to consolidation are fully eliminated from consolidation.

The carrying amounts of such investments are subject to impairment testing. Any identified impairment is recognised in the statement of profit and loss as finance costs. Reversal of an impairment loss is recognised in the statement of profit and loss as finance income and occurs upon changes in the estimates used to determine the Company's rate of return on investment.

When control is lost, the Group ceases to recognise such subsidiary's assets and equity and liabilities as well as non-controlling interests and other equity components related to this subsidiary. Excesses or shortages arising as a result of a loss of control are recognised in present-period profit or loss.

Dividends received from such investments are recognised in the statement of profit and loss as finance income upon establishing the right to dividend.

Mergers of entities under joint control are recognised at book value (historic, resulting from the consolidated financial statements of the parent, which prepares consolidated financial statements). The merging entities were also covered by joint controlled prior to the transaction and their merger does not give rise to changes in their net assets or goodwill.

6.2.16 Leasing

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incident to ownership. The object of a lease is recognised as an asset from the inception of the lease at the lower of fair value of the leased object and present value of minimum lease payments.

Finance lease payments should be apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability. The interest component of a finance lease payment is recognised in the statement of profit and loss as finance cost throughout the lease term. Assets acquired under finance leases that are subject to depreciation are depreciated throughout their useful periods, with consideration given to their residual value, or lease term, depending on which is shorter.

A lease is classified as an operating lease if substantially all the risks and rewards incident to ownership remain with the lessor (the financing entity). If the title to land is not expected to be transferred to the lessee before the end of the lease term, the lease is classified as an operating lease.

Lease payments under operating leasing (after accounting for any special promotional offers from the lessor - financing party) are accounted for using the straight-line approach throughout the lease term.

6.2.17 Inventories

The Group's inventories are as follows:

- materials
- goods

Inventory items are measured at purchase prices. Because they are insignificant, the Group does not include transport costs in purchase prices. The FIFO principle is used in respect to inventory items.

At the end of the reporting period, inventory is recognised at purchase price that may not, however, be higher than its net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and the estimated costs necessary to make the sale.

The Group recognises impairment losses on inventory based on the inventory turnover ratio and an assessment of the possibility to sell such inventory

before its expiry or during its economic life. The recognition of a new impairment loss and reversal of a previously created impairment loss are recognised as operating expenses (cost of sales) in the statement of profit and loss.
The rounding of prices related to purchases of goods inventories (resulting from different units of measurement for goods used by the seller and buyer) are recognised directly in the statement of profit and loss, as cost of sales.
Rebates and bonuses received from suppliers that are tied to goods turnover are settled by the Group in proportion to the goods sold as a decrease in the cost of goods sold and a decrease in the value of goods inventories.
Stock losses and a negative balance of inventory deficits regarded as unintentional are recognised directly as selling costs.

6.2.18 Trade and other receivables

Receivables are carried at amortised cost less impairment. Non-recoverable receivables are recognised as other expenses at the date on which they are classified as non-recoverable.
Impairment of receivables is recognised when there is objective proof that the Group will not be able to receive all due amounts as per the original terms of the receivable.
The Group recognises impairment losses on receivables for specific counterparties. An impairment loss is recognised in the books under other expenses. The reversal of a previously created impairment loss is recognised as other revenue and releases the impaired amount. Impairment losses in the statement of profit and loss are offset and recognised as either other expense or other revenue.
Receivables with a payment term of up to 12 months and receivables concerning collateral are recognised in the amount due.
In consideration of the prudence principle, interest on late payment of receivables is recognised when the Company receives the funds.
All advance payments such as those concerning future goods and services, production in process, payment for shares, purchase of intangible assets and others are recognised as other receivables.

6.2.19 Prepayments and deferred revenue

The Group recognises prepayments if the expenses concern subsequent periods after the period in which they are incurred.
The Group's most significant prepayment items are as follows: prepaid rent, compensation fees (amounts paid to take over a store site from the previous lessee), insurance and subscriptions.
The Group classified prepayments as either short-term or long-term (those which will be realised in a period longer than 12 months from the end of the reporting period). In the statement of financial position, prepayments are presented as a separate asset item.
Deferred revenue constitutes funds received for future considerations. In the statement of financial position, deferred revenue is recognised in a separate liability item.

Deferred revenue resulting from loyalty programmes

The Group operates loyalty programmes for Stokrotka chain's retail clients. They are intended to make sales more attractive and gain client loyalty.
Loyalty programmes give clients points for purchases that can later be exchanged for prizes or used to purchase certain goods at lower prices.
According to IFRIC 13, the Group separates the initial goods sales transaction into the value of the loyalty programme and other sales value. The part of revenue corresponding to loyalty programmes is deferred in time as deferred revenue until the programme's terms are met. The remaining part of revenue is recognised in the statement of profit and loss upon the initial transaction.
The amount assigned to loyalty points is measured at fair value and recognised as deferred revenue until

the points are used (prize is collected) or they expire. When measuring this value, the Group takes into account: the expected rate of points use and expected structure of prizes collected, which has an impact on the weighted average fair value of one premium point.

Amounts of deferred revenue related to loyalty programmes are presented in note 6.3.27.
All indirect costs of a loyalty programme such as: advertising costs, remuneration costs, prize-related costs, other service costs, are accounted for as costs of the present period and have no impact on the amount of deferred revenue.

6.2.20 Cash and cash equivalents

Cash and cash equivalents comprise: cash on hand, cash in bank accounts and all deposits and short-term securities with maturities of up to three months.

At the end of the reporting period, cash and cash equivalents are recognised at nominal value.

6.2.21 Equity

The Company's equity comprises:

- share capital
- supplementary capital
- reserve capital
- own shares
- retained earnings

Share capital is recognised in the amount specified in the articles of association and in the National Court Register.

Emperia Holding S.A.'s supplementary capital is divided into the following categories:

- share premium provision - the premiums received from share issues, less issue costs,
- supplementary capital - created from profit generated in successive years in an amount equal to at least 8% of the given financial year's profit until supplementary capital reaches one third of share capital,
- management options provision - established in connection with management options programmes.

Emperia Holding S.A.'s reserve capital is divided into the following categories:

- reserve capital - intended to cover extraordinary losses or expenditures, created from profit generated in successive years,
- revaluation reserve - comprises the net difference of measured net restated non-current assets,

Own shares purchased by the Company are recognised at purchase price, increased by costs directly connected with their purchase. The purchase and redemption of own shares are presented as a change in equity. In the statement of financial position, own shares are presented as a separate item reducing equity (with a negative sign).
Retained earnings cover the following categories:

- unallocated profit or outstanding losses brought forward (accumulated profit / losses from prior years),
- correction of prior-year errors,
- actuarial gains (losses),
- current-period result.

6.2.22 Net earnings per share

Net earnings per share are calculated for each reporting period through dividing the net profit generated in the period by the weighted average number of shares in that period.

6.2.23 Credit facilities

Credit facilities are recognised at fair value less acquisition costs. In subsequent periods, credit facilities are measured at amortised cost using the effective interest rate method.

Long-term credit facilities are those facilities with maturities longer than 12 months from the end of the reporting period.

6.2.24 Provisions

The Group recognises provisions if there is an expected present, legal or customary obligation of a likely payment to arise, resulting from past events. There must be a higher likelihood that an outflow will be required in order to meet the obligation than that it will not be required, and its amount should be reliably estimated.
Receivables provisions are recognised as operating expenses or other operating expenses.
If there is a likelihood that a part or all of the economic benefits required to settle the provision may be recovered from a third party, the receivable is recognised as an asset, provided that the likelihood is sufficiently high and that it can be reliably estimated.

In the event that the time value of money is substantial, the size of the provision is determined through discounting future cash flows to present value using a gross interest rate reflecting the current market valuations of the time value of money and any risk associated with the given obligation. If discounting is applied, increasing the provision with passage of time is recognised as finance costs.
The amount of provisions created is verified and updated at the end of each reporting period in order to adjust estimates to the company's present level of knowledge.
Provisions in the financial statements are presented as either current or non-current.

6.2.25 Liabilities

Liabilities are present obligations as a result of past events, the settlement of which is expected to result in an outflow of resources (payment).
Non-current liabilities are liabilities that fall due for payment after more than 12 months from the end of the reporting period.
Non-current liabilities particularly include: credit liabilities, loan liabilities and finance lease liabilities.
At the end of the reporting period, non-current liabilities are measured at amortised cost using the effective interest rate method.
Current liabilities are liabilities that fall due for payment within 12 months from the end of the reporting period. Current liabilities include in particular: trade payables, credit liabilities, loan liabilities, wages and salaries, taxes, excise duties, insurance and other benefits.
In the case of liabilities that fall due for payment within 12 months, discount is excluded due to its insignificance.
Trade payables are recognised at nominal value. Interest is recognised upon receipt of bills from suppliers.
Non-financial liabilities are measured at the amount due.

6.2.26 Employee benefits

6.2.26.1 Employee benefits

Company employees acquire rights to benefits which will be paid out once they obtain certain entitlements.

Employee benefits are divided into the following categories:

– post-employment benefits:
  - one-off retirement allowances,
  - one-off disability allowances,

– other employee benefits:
  - untaken holidays,
  - outstanding overtime,
  - bonuses and awards payable after the reporting period,
  - redundancy costs.

Employee benefit provisions are created in order to allocate costs to relevant periods.

Post-employment benefits

In accordance with occupational remuneration schemes, all of the Company's employees are entitled to retirement/disability allowances on the terms specified in art. 92 of the Polish Labour Code, equal to one month's basic salary. Retirement/disability allowances are paid on a one-off basis when the employee retires (claims disability).

The Company recognises provisions corresponding to the present value of these liabilities as of the end of the reporting period. The value of liabilities associated with these benefits is estimated at the end of the reporting period by an independent actuarial advisory firm using the forecast unit benefit method.

To calculate the value of these provisions, assumptions (estimates) are made with regard to the following: employee mortality, incapacity for work, employee turnover, retirement age, temporary staff, employees in the period of notice with known contract termination date, discount rate and remuneration growth rate.

Cost components of post-employment benefits include:

– Current service cost is the growth in the present value of liabilities related to defined benefits arising on work being performed by employees in the present period,
– Past service cost is the growth in the present value of liabilities related to defined benefits for work performed by employees in previous periods, such as arise in the present period as a result of introducing post-employment benefits or other long-term employee benefits, or as a result of a change in these benefits. Past service costs may be either positive (when benefits are introduced or changed to more favourable ones) or negative (when existing benefits are decreased),
– Net interest on net defined benefit liabilities is the change in net defined benefit liabilities during the reporting period due to the passage of time,
– Actuarial gains and losses include:
  - experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and
  - changes in actuarial assumptions

Cost components of post-employment benefits include:

– current and past service costs - as operating costs,
– net interest on net liabilities resulting from a change in the value of a provision to reflect the passage of time - as finance costs,
– actuarial gains/losses resulting from changes in actuarial assumptions - as other comprehensive income recognised through prior-period profit or loss (together with tax effect).

Provisions for post-employment benefits may be current or non-current liabilities.

Other employee benefits

Other employee benefits include:

– untaken holidays - expected liabilities arising as a result of untaken holidays during the present and previous years, which accrued at the balance sheet date,
– outstanding overtime - unsettled overtime liabilities (settled in settlement periods) at the end of the reporting period,

- bonuses and awards payable after the reporting period - for achievement of corporate and individual goals during the reporting period,
- redundancy costs - the costs of allowances and potentially additional employee benefits during the notice period.

Provisions for other employee benefits are also increased by social security contributions and the Workplace Fund and Wage Guarantee Fund in effect on the balance sheet date.

Provisions for other employee benefits are recognised as current benefits and presented under operating costs (as selling costs or administrative expenses, respectively).

6.2.26.2 Share-based payments

The Group has the following incentive schemes:
- Management Options Programme I 2008-2009,
- Management Options Programme II 2010-2012 (programme was not used in 2012)

under which members of the Management Board and key managers are entitled to acquire options (bonds) to purchase shares in the company. These benefits are settled in accordance with IFRS 2. The costs of transactions settled with employees using equity instruments are measured at fair value on the date on which such rights become vested. The programme's fair value is recorded as a cost in the statement of profit and loss and as equity (management options provision) throughout the vesting period.

The fair value of the options (bonds) to purchase shares in the Company is estimated by an independent expert using modern financial engineering and numerical methods. The measurement includes: the model input price (share price on the date on which a given instrument is granted), the instrument's exercise price, expected volatility, risk-free interest rate and the expected dividends.

6.2.27 Income tax

Income tax includes: current tax (payable) and deferred tax.

a) Current tax

Current tax liabilities are calculated on the basis of the tax result (tax base) of a given financial year.

Tax profit (loss) differs from balance sheet profit (loss) in connection with the exclusion of taxable income and expenses that are deductible in subsequent years as well as cost and revenue items that will never be taxed. The burden of the current portion of income tax is calculated using tax rates effective for a given financial year.

b) Deferred tax

Deferred income tax liabilities constitute tax which is payable in the future and is recorded in the balance sheet in its full amount, as regards the temporary differences between the tax value of assets and liabilities, and in the financial statements, as regards their carrying amounts.

Deferred income tax assets constitute tax which is to be returned in the future and is calculated using the balance sheet method, as regards the temporary differences between the tax value of assets and liabilities, and in the financial statements, as regards their carrying amounts. Deferred income tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be realised.

Basic temporary differences concern the differences between the carrying amount and tax base of assets and liabilities settled in time.

Deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates/laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised in the statement of profit and loss, and - if related to equity-based payments - in equity.

Deferred income tax assets and liabilities are recognised in the balance sheet as non-current assets and liabilities.

6.2.28 Revenue from sales

Revenue from sales is recognised when it is sufficiently probable that any future economic benefit associated with the item of revenue will flow to the Company, and the amount of revenue can be measured with reliability, and costs connected with the transaction can be measured with reliability.
Revenue from sales is recognised at the fair value of consideration received or receivable, less tax on goods and services and any discounts. Revenue is the gross inflow of economic benefits arising during the Company's ordinary course of business.
Revenue from activities indirectly related to the Company's ordinary course of business, such as gains on disposal of non-financial non-current assets, penalties and damages, reimbursements, is recorded in other operating revenue. Proceeds from disposal of financial assets, dividends and interest income derived from financial instruments are recognised in finance income.

Revenue from sale of goods

Revenue from retail sales is recognised when the product is sold to the customer. Retail sales are usually in cash or by payment cards. Card fees are recognised as selling costs.

Revenue from sale of services

Main categories of revenue from the sale of services constitute lease services and IT services.
Revenue from the sale of services is recognised when service is provided and approved by the buyer. If contractually permitted, recognition of revenue on partial delivery of service is possible, as specified in a separate agreement.

Revenue from sale of marketing services

The Group generates revenue from the sale of marketing services, which is calculated based on a percentage of the value of goods sold, which de facto constitutes rebates received from suppliers. In order to reliably reflect the economic content of transactions, the value of this revenue decreases the cost of goods sold.

Interest income

Interest income is recorded on an accrual basis if there is sufficient certainty that the receivable will be recovered. In retail, due to its specific nature, interest serves a different function, so for the most part it is recognised as revenue on an accrual basis.

6.2.29 Costs

Costs constitute a probable decrease in economic benefits during the reporting period as either a decrease in assets or increase in liabilities and provisions, which reduce equity or increase equity shortfall in a manner other than withdrawal by shareholders.
The Company recognises costs in the statement of profit and loss based on direct or indirect connection between the costs and revenue generated, with the application of the matching principle, and using prepayments and accruals for this purpose.

The Company classifies expenses by nature and by cost centre. The main cost reporting model is classification by function.

Cost of goods and materials - covers the costs directly incurred to obtain goods and materials sold and corresponds with the revenue generated from the sale of these items.

Cost of services – covers expenses directly connected with provision of services.

Selling costs – covers expenses connected with the selling and distributing of goods and services.

Administrative expenses – covers costs incurred in connection with general company operations other than those classified as other operating expenses or finance costs.

Other operating costs – covers costs indirectly related to the Company's activities, e.g. losses on the sale of non-financial non-current assets, impairment of non-current assets, impairment of receivables, damages, compensation, donations

Finance costs – covers among other things: costs connected with financing the Group's activities (interest), costs related to the impairment of financial assets, guarantee costs, bank fees and commissions.

6.2.30 Foreign-currency transactions and exchange differences

Transactions expresses in foreign currencies are recognised in the Group's functional currency (PLN), using the exchange rate in effect on the transaction date.

At the end of each reporting period:

- cash items expressed in foreign currency are translated using the closing rate;
- foreign-currency non-monetary items carried at historic cost are translated using the exchange rate in effect on the transaction date, and
- foreign-currency non-monetary items carried at fair value are translated using the exchange rate in effect on the date on which fair value was measured.

Gains and losses from settlement of foreign-currency transactions and measurement of monetary balance sheet assets and liabilities expressed in foreign currencies are recognised in the statement of profit and loss as finance income or finance costs, respectively.
Exchange differences are presented after offsetting.

(amounts in PLN 000s, unless otherwise stated)

6.3 Additional explanatory notes

6.3.1 Property, plant and equipment

	31 Dec 2016	31 Dec 2015
Land, including:	73 470	76 234
Perpetual usufruct rights	*8 160*	*14 409*
Buildings and structures	201 124	204 799
- including: investments in third-party tangible assets	*57 635*	*51 032*
Technical equipment and machinery	72 870	64 850
Means of transport	7 108	6 731
Other PP&E	30 314	30 055
PP&E under construction	1 980	13 171
Net property, plant and equipment	**386 866**	**395 840**

PP&E under construction	**31 Dec 2016**	**31 Dec 2015**
Land, including:	9	5
Perpetual usufruct rights	-	-
Buildings and structures	1 285	10 081
Technical equipment and machinery	570	1 772
Means of transport	4	280
Other PP&E under construction	112	1 033
Total property, plant and equipment under construction	**1 980**	**13 171**

(amounts in PLN 000s, unless otherwise stated)

6.3.2 Change in property, plant and equipment

2016	land (including right to perpetual usufruct of land)	buildings, premises, civil engineering structures	technical equipment and machinery	means of transport	other PP&E	other production in progress	total property, plant and equipment
a) gross value of property, plant and equipment at the beginning of period	**77 856**	**321 971**	**148 232**	**11 096**	**96 159**	**13 171**	**668 486**
b) increases (due to)	-	22 842	24 370	3 444	9 401	27 258	87 315
purchase	-	*296*	*12 623*	*3 163*	*5 661*	*27 258*	*49 001*
transfer from production-in-progress	-	*22 546*	*11 747*	*281*	*3 740*	-	*38 314*
c) decreases (due to)	(3 080)	(12 815)	(3 889)	(1 822)	(1 073)	(38 450)	(61 128)
sale	*(2 680)*	*(11 720)*	*(143)*	*(1 805)*	*(68)*	-	*(16 417)*
liquidation (scrapping)	-	*(1 094)*	*(3 746)*	*(16)*	*(1 005)*	-	*(5 862)*
transfer to non-current assets	-	-	-	-	-	*(38 450)*	*(38 450)*
other	*(400)*	-	-	-	-	-	*(400)*
d) gross value of property, plant and equipment at the end of period	**74 776**	**331 999**	**168 712**	**12 718**	**104 487**	**1 980**	**694 672**
e) amortisation as at the beginning of period	**1 622**	**109 286**	**83 382**	**4 365**	**66 104**	**-**	**264 760**
f) increase in amortisation	47	16 310	16 044	2 652	9 129	-	44 182
amortisation	*47*	*16 310*	*16 044*	*2 652*	*9 129*	-	*44 182*
g) decrease of amortisation	(363)	(2 581)	(3 584)	(1 407)	(1 059)	-	(8 995)
sale	*(363)*	*(1 599)*	*(97)*	*(1 391)*	*(68)*	-	*(3 519)*
liquidation (scrapping)	-	*(982)*	*(3 225)*	*(16)*	*(991)*	-	*(5 215)*
other	-	-	*(261)*	-	-	-	*(261)*
h) depreciation as at the end of period	**1 306**	**123 015**	**95 842**	**5 610**	**74 174**	**-**	**299 946**
i) impairment losses as at the beginning of period	**-**	**7 886**	**-**	**-**	**-**	**-**	**7 886**
increase	-	*275*	-	-	-	-	*275*
decrease	-	*(301)*	-	-	-	-	*(301)*
j) impairment losses as at the end of period	**-**	**7 859**	**-**	**-**	**-**	**-**	**7 859**
k) net value of property, plant and equipment at the end of period	**73 470**	**201 124**	**72 870**	**7 108**	**30 314**	**1 980**	**386 866**

(amounts in PLN 000s, unless otherwise stated)

2015	land (including right to perpetual usufruct of land)	buildings, premises, civil engineering structures	technical equipment and machinery	means of transport	other PP&E	other production in progress	total property, plant and equipment
a) gross value of property, plant and equipment at the beginning of period	**75 523**	**299 684**	**128 413**	**9 552**	**85 126**	**9 618**	**607 917**
b) increases (due to)	4 716	27 729	23 709	2 355	13 371	64 525	136 405
purchase	*-*	*132*	*13 842*	*2 342*	*7 338*	*64 453*	*88 106*
transfer from production-in-progress	*1 567*	*22 013*	*9 811*	*14*	*6 033*		*39 438*
other	*3 149*	*5 584*	*-*	*-*	*-*	*72*	*8 862*
c) decreases (due to)	(2 383)	(5 442)	(3 890)	(812)	(2 338)	(60 971)	(75 836)
sale	*(2 383)*	*(1 894)*	*(357)*	*(774)*	*(310)*	*(15)*	*(5 733)*
liquidation (scrapping)	*-*	*(3 548)*	*(3 534)*	*(38)*	*(2 027)*	*-*	*(9 147)*
transfer to non-current assets	*-*	*-*	*-*	*-*	*-*	*(60 918)*	*(60 918)*
other	*-*	*-*	*-*	*-*	*-*	*(38)*	*(38)*
d) gross value of property, plant and equipment at the end of period	**77 856**	**321 971**	**148 232**	**11 096**	**96 159**	**13 171**	**668 486**
e) amortisation as at the beginning of period	**1 821**	**96 628**	**73 319**	**2 671**	**59 532**	**-**	**233 971**
f) increase in amortisation	10	14 950	13 647	2 312	8 734	-	39 653
amortisation	*10*	*14 950*	*13 647*	*2 312*	*8 734*	*-*	*39 653*
g) decrease of amortisation	(208)	(2 293)	(3 584)	(618)	(2 162)	-	(8 864)
sale	*(208)*	*(174)*	*(166)*	*(580)*	*(145)*	*-*	*(1 272)*
liquidation (scrapping)	*-*	*(786)*	*(3 419)*	*(38)*	*(2 017)*	*-*	*(6 260)*
other	*-*	*(1 332)*	*-*	*-*	*-*	*-*	*(1 332)*
h) depreciation as at the end of period	**1 622**	**109 286**	**83 382**	**4 365**	**66 104**	**-**	**264 760**
i) impairment losses as at the beginning of period	**-**	**8 815**	**-**	**-**	**-**	**-**	**8 815**
increase	*-*	*383*	*-*	*-*	*-*	*-*	*383*
decrease	*-*	*(1 312)*	*-*	*-*	*-*	*-*	*(1 312)*
j) impairment losses as at the end of period	**-**	**7 886**	**-**	**-**	**-**	**-**	**7 886**
k) net value of property, plant and equipment at the end of period	**76 234**	**204 799**	**64 850**	**6 731**	**30 055**	**13 171**	**395 840**

As at 31 December 2016, the value of land under perpetual usufruct was PLN 19 341 000 and PLN 16 213 000 as at 31 December 2015. This was estimated using the annual fees established by municipalities in relation to the properties owned by the state treasury.

Group companies do not own any property, plant and equipment items that would have limited ownership or usage rights.

Depreciation of property, plant and equipment in 2016 and 2015 was recognised in administrative expenses, cost of sales and cost of manufacturing of the products and services sold.

As at 31 December 2016 and 31 December 2015, there were no contractual liabilities incurred in connection with the purchase of property, plant and equipment.

As at 31 December 2016 and 31 December 2015, there were no liabilities towards central or local government authorities for acquisition of ownership rights to buildings and structures.

(amounts in PLN 000s, unless otherwise stated)

6.3.3 Investment properties

	31 Dec 2016	31 Dec 2015
Land, including:	28 154	28 300
Perpetual usufruct rights	*9 071*	*8 907*
Buildings and structures	95 031	98 477
- including: investments in third-party tangible assets	-	-
Technical equipment and machinery	245	324
Other PP&E	11	15
Net investment properties	**123 441**	**127 116**

6.3.4 Change in investment properties

2016	- Land (including right to perpetual usufruct of land)	- Buildings, premises, civil engineering structures	- Technical equipment and machinery	- Other PP&E	Total investment properties
a) gross value of investment properties as at the beginning of period	**29 260**	**115 105**	**1 123**	**77**	**145 565**
b) increases (due to)	-	9	8	-	17
- purchase	-	*9*	*8*	-	*17*
c) decreases	-	-	-	-	-
d) gross value of investment properties at the end of period	**29 260**	**115 114**	**1 131**	**77**	**145 582**
e) amortisation as at the beginning of period	**960**	**16 628**	**799**	**63**	**18 449**
f) increase of depreciation (due to)	146	3 456	88	3	3 692
- depreciation	*146*	*3 456*	*88*	*3*	*3 692*
g) decrease of amortisation	-	-	-	-	-
h) depreciation as at the end of period	1 106	20 083	886	66	22 141
k) net value of investment properties at the end of period	**28 154**	**95 031**	**245**	**11**	**123 441**

(amounts in PLN 000s, unless otherwise stated)

2015	- Land (including right to perpetual usufruct of land)	- Buildings, premises, civil engineering structures	- Technical equipment and machinery	- Other PP&E	Total investment properties
a) gross value of investment properties as at the beginning of period	**29 260**	**115 105**	**1 123**	**77**	**145 565**
b) increases (due to)	-	-	-	-	-
- purchase	-	-	-	-	-
- transfer from production-in-progress	-	-	-	-	-
c) decreases (due to)	-	-	-	-	-
- transfer to property, plant and equipment	-	-	-	-	-
d) gross value of investment properties at the end of period	**29 260**	**115 105**	**1 123**	**77**	**145 565**
e) amortisation as at the beginning of period	814	13 237	677	57	14 785
f) increase of depreciation (due to)	146	3 391	122	5	3 664
- depreciation	*146*	*3 391*	*122*	*5*	*3 664*
g) decrease of amortisation	-	-	-	-	-
h) depreciation as at the end of period	**960**	**16 628**	**799**	**62**	**18 449**
k) net value of investment properties at the end of period	**28 300**	**98 477**	**324**	**15**	**127 116**

6.3.5 Intangible assets

	31 Dec 2016	31 Dec 2015
Acquired concessions, patents, licences and similar	2 820	2 914
Other intangible assets	1 096	579
Intangible assets in progress	202	1 142
Total intangible assets	**4 118**	**4 635**

The Group did not recognise impairment losses on intangible assets.
The Group does not have any intangible assets used under lease agreements.
The Group does not have any intangible assets with restricted usage rights.
The Group does not have any bank credit that would be secured by intangible assets.
Amortisation of intangible assets in 2016 and 2015 was recognised in administrative expenses, cost of sales and cost of manufacturing of the products and services sold.
As at 31 December 2016, there were no contractual liabilities incurred in connection with the purchase of intangible assets.

(amounts in PLN 000s, unless otherwise stated)

6.3.6 Changes in intangible assets

2016	Acquired concessions, patents, licences and similar	Other intangible assets	Intangible assets in progress	Total intangible assets
a) gross values of intangible assets as at the beginning of period	**15 308**	**2 963**	**1 142**	**19 413**
b) increases (due to)	699	967	338	**2 004**
purchase of finished intangible assets	*218*	*185*	*338*	741
transfer from investments	*481*	*776*	-	1 257
other	-	*6*	-	6
c) decreases (due to)	(10)	-	(1 278)	(1 288)
sale	-	-	*(8)*	*(8)*
transfer to intangible assets	-	-	*(1 256)*	*(1 256)*
other	*(10)*	-	*(14)*	(24)
d) gross values of intangible assets as at the end of period	**15 997**	**3 930**	**202**	**20 129**
e) amortisation as at the beginning of period	**12 394**	**2 385**	-	**14 779**
f) increase in amortisation	793	449	-	1 242
amortisation	*793*	*449*	-	*1 242*
g) decrease of amortisation	*(10)*	-	-	*(10)*
other	*(10)*	-	-	*(10)*
h) depreciation as at the end of period	**13 177**	**2 834**	-	**16 011**
k) net value of intangible assets as at the end of period	**2 820**	**1 096**	**202**	**4 118**

(amounts in PLN 000s, unless otherwise stated)

2015	Acquired concessions, patents, licences and similar	Other intangible assets	Intangible assets in progress	Total intangible assets
a) gross values of intangible assets as at the beginning of period	**14 173**	**2 910**	**101**	**17 184**
b) increases (due to)	*1 268*	*59*	*1 327*	***2 654***
purchase of finished intangible assets	*997*	*38*	*1 327*	*2 362*
transfer from investments	*265*	*21*	-	*286*
other	*6*		-	*6*
c) decreases (due to)	(133)	(6)	(286)	(425)
sale	*(94)*	-	-	*(94)*
transfer to intangible assets	-	-	*(286)*	*(286)*
other	*(39)*	*(6)*	-	*(45)*
d) gross values of intangible assets as at the end of period	**15 308**	**2 963**	**1 142**	**19 413**
e) amortisation as at the beginning of period	**11 570**	**2 128**	-	**13 698**
f) increase in amortisation	916	263	-	1 179
amortisation	*916*	*263*	-	*1 179*
g) decrease of amortisation	(92)	(6)	-	(98)
sale	*(53)*	-	-	*(53)*
other	*(39)*	*(6)*	-	*(45)*
h) depreciation as at the end of period	**12 394**	**2 385**	-	**14 779**
k) net value of intangible assets as at the end of period	**2 914**	**579**	**1 142**	**4 635**

(amounts in PLN 000s, unless otherwise stated)

6.3.7 Goodwill

	31 Dec 2016	31 Dec 2015
Cost as at the beginning of period	52 044	52 044
Decreases / increases during the period	-	-
Cost as at the end of period balance	**52 044**	**52 044**
Carrying amount as at the beginning of period	52 044	52 044
Carrying amount as at the end of period	52 044	52 044

Goodwill comprises the following analytical items:

a) goodwill arising on the acquisition of Maro-Markety by Emperia Holding - PLN 17 335 000,
b) goodwill arising on the acquisition of Sydo Sp. z o.o. and Alpaga Xema Sp. z o.o., whose legal successor is P3 Ekon Sp. z o.o. S.K.A. by Emperia Holding - PLN 12 844 000,
c) goodwill arising on the acquisition of Społem Tychy S.A. by Emperia Holding - PLN 1 510 000,
d) goodwill arising on the acquisition of Centrum Sp. z o.o. and PH Alfa Sp. z o.o. by Stokrotka Sp. z o.o. - PLN 17 496 000,
e) goodwill arising on the acquisition of Pilawa Sp. z o.o. by Stokrotka Sp. z o.o. - PLN 2 858 000.

Impairment testing

Goodwill was assigned to cash generating units:

a) Stokrotka Sp. z o.o. - PLN 39 200 000,
b) P3 Ekon Sp. z o.o. S.K.A. - PLN 12 844 000.

The goodwill recorded in these financial statements was subject to impairment testing. The measurement was categorised as level 2 in the fair value hierarchy, in accordance with IFRS 13.

In order to determine any potential impairment of goodwill, recoverable amounts for cash generating units were calculated using the discounted cash flow method. The recoverable amounts were determined on the basis of estimated cash flows resulting from the 2016 budget and a forecast for 2017-2021, assuming no growth after the forecast period. To extrapolate revenue estimates beyond the budget period (2017-2021), a growth rate of 0% was adopted. The management estimated sales growth rate based on actual and graphical data, along with their expectations regarding future market growth.

Cash flows were discounted with an interest rate established based on:
- risk free interest rate 3.6%,
- risk premium 5-6%,
- beta 0.69-1.67,
- CAPM 7.8-11.1%,
- WACC 6.5-11.1%.

The impairment test, carried out using the above assumptions, did not identify impairment losses on goodwill recorded in the 2016 financial statements.

As a result of the test, Stokrotka Sp. z o.o.'s recoverable amount was established as PLN 401 226 000, which exceeded book value together with allocated goodwill and in consequence did not meet the criteria for recognising impairment.
In accordance with IFRS, the recoverable amount was analysed in terms of its sensitivity to the key parameters affecting measurement: discount rate and revenue growth rate during the forecast period. Assuming a 1% decrease

(amounts in PLN 000s, unless otherwise stated)

in revenue growth rate, the recoverable amount decreases to PLN 354 150 000. A 1% increase in discount rate would cause a decrease of the recoverable amount to PLN 346 658 000. In both cases, recoverable amount remains at a level much higher than book value plus goodwill.

As a result of the test, the recoverable amount of P3 Ekon Sp. z o.o. S.K.A. was established as PLN 147 407 000, which exceeded book value together with allocated goodwill and in consequence did not meet the criteria for recognising impairment.
In accordance with IFRS, the recoverable amount was analysed in terms of its sensitivity to the key parameters affecting measurement: discount rate and revenue growth rate during the forecast period. Assuming a 1% decrease in revenue growth rate, the recoverable amount decreases to PLN 146 476 000. A 1% increase in discount rate would cause a decrease of the recoverable amount to PLN 145 527 000. In both cases, recoverable amount remains at a higher level than book value plus goodwill.

6.3.8 Financial assets

	31 Dec 2016	31 Dec 2015
Equity interests	3	3
- including: subsidiaries	-	-
Other equity interests	34	34
- including: subsidiaries	-	-
Total financial assets	**37**	**37**

(amounts in PLN 000s, unless otherwise stated)

Note 6.3.8 - 2016

Non-current financial assets - related parties - 2016	Equity interests	Other equity interests	Total non-current financial assets - related parties
a) financial assets as at the beginning of period	**3**	**34**	**37**
b) increases	-	-	-
c) decreases	-	-	-
d) financial assets as at the end of period	**3**	**34**	**37**

Note 6.3.8 - 2015

Non-current financial assets - related parties - 2015	Equity interests	Other equity interests	Total non-current financial assets - related parties
a) financial assets as at the beginning of period	**8**	**84**	**92**
b) increases	-	-	-
c) decreases (due to)	(5)	(50)	(55)
- impairment	*(5)*	-	*(5)*
- other	-	*(50)*	*(50)*
d) financial assets as at the end of period	**3**	**34**	**37**

6.3.9 Non-current loans

	31 Dec 2016	31 Dec 2015
Long-term loans issued	263	1 615
- including: to subsidiaries	-	-
Total long-term loans	**263**	**1 615**

(amounts in PLN 000s, unless otherwise stated)

6.3.10 Non-current receivables

	31 Dec 2016	31 Dec 2015
Collateral related to leases	5 532	6 313
- including: from subsidiaries	-	-
Total non-current receivables	**5 532**	**6 313**

Collateral is not interest-bearing. Given the low value (materiality criterion), it is not subject to amortisation.

6.3.11 Deferred income tax assets

	31 Dec 2016	31 Dec 2015
Deferred income tax assets at the beginning of period	**22 009**	**18 272**
Increases	2 552	6 120
a) recognised through profit or loss	*2 453*	*6 115*
b) recognised through equity	*99*	*5*
Decreases	(6 508)	(2 383)
a) recognised through profit or loss	*(6 508)*	*(2 383)*
Deferred income tax assets at the end of period	**18 053**	**22 009**

Deferred income tax assets, the basis of which are temporary differences resulting from:	31 Dec 2016	31 Dec 2015
Trade receivables	576	600
Remuneration liabilities	1 615	1 450
One-off retirement/disability allowances	184	141
Untaken holidays and similar	1 342	986
Pay bonuses and similar	526	724
Deduction of discount on own bonds	4	2
Audit provision	56	16
Impairment of inventory	783	1 078
Discounts recorded in inventory	2 830	2 681
Difference between the balance sheet value and tax value of property, plant and equipment	4 329	6 715
Provision for agreements giving rise to liabilities	2 585	3 606
Uninvoiced costs	318	255
Tax loss	1 876	2 330
Deferred revenue resulting from loyalty programmes	323	-
Actuarial losses	130	-
Rebates for franchisees with tax settled in different periods	93	-
Other items	483	1 425
Deferred income tax assets at the end of period	**18 053**	**22 009**

(amounts in PLN 000s, unless otherwise stated)

	31 Dec 2016	31 Dec 2015
Deferred income tax assets:	**18 053**	**22 009**
- to be realised within 12 months	10 440	10 941
- to be realised after 12 months	7 613	11 068

The value of non-capitalised losses at the end of 2016 amounted to PLN 36 594 000. The Management Board intends to capitalise these losses in the next three financial years, provided that this is in line with budget assumptions.

6.3.12 Other non-current prepayments

	31 Dec 2016	31 Dec 2015
Rent	321	386
Rebates granted	1 541	-
Purchase of rights to lease commercial premises	15 825	14 037
Costs related to store equipment and opening	1 061	-
Other	78	84
Total non-current prepayments	**18 826**	**14 507**

6.3.13 Inventories

	31 Dec 2016	31 Dec 2015
Materials	8 211	11 941
Goods	228 766	206 878
Impairment of inventories	(19 015)	(19 784)
Total inventories	**217 962**	**199 035**

Impairment of inventories	31 Dec 2016	31 Dec 2015
Impairment of inventory as at the beginning of period	(19 784)	(15 774)
Increases (recognition of new impairment losses)	(18 935)	(19 952)
Decreases (due to decrease in inventory)	19 704	15 942
Impairment of inventory as at the end of period	**(19 015)**	**(19 784)**

Impairment losses on inventory were recognised in connection with commercial sales bonuses (part of bonuses related to unsold goods), amounting to PLN 14 894 000, and as a result of a release of a provision concerning inventory deficits, amounting to PLN 4 121 000.

(amounts in PLN 000s, unless otherwise stated)

Restrictions in ownership rights regarding off-balance sheet collateral established	**31 Dec 2016**	**31 Dec 2015**
Collateral, by title:	**15 000**	**15 000**
- credit facilities	-	-
- bank guarantees	*15 000*	*15 000*
Total restrictions in ownership rights regarding off-balance sheet collateral established	**15 000**	**15 000**

6.3.14 Receivables

	31 Dec 2016	**31 Dec 2015**
For products and services	57 131	51 674
- including: from related parties	-	-
Taxes and other state fees	10 891	18 210
Under judicial enforcement	1 601	1 650
Advances paid for supplies	402	1 088
Other receivables	19 773	9 367
including: from related parties	-	-
Impairment of receivables	(9 065)	(10 742)
Total net receivables	**80 733**	**71 248**

Impairment of receivables	**31 Dec 2016**	**31 Dec 2015**
Impairment of receivables as at the beginning of period	(10 742)	(9 794)
- including: from related parties	-	-
Increases (recognition of new impairment losses)	(1 552)	(3 376)
- including: from related parties	-	-
- including: increase as a result of acquisitions	-	-
Decreases	3 229	2 428
- including: from related parties	-	-
release	1 458	1 358
- including: from related parties	-	-
- including: decrease as a result of disposals	-	-
Derecognised (from statement of profit and loss)*	1 771	1 070
- including: from related parties	-	-
Impairment of receivables as at the end of period	**(9 065)**	**(10 742)**
- including from related parties		-

* Receivables are derecognised where an impairment loss had been previously created and their unrecoverable status has been documented.

Restrictions in ownership rights regarding off-balance sheet collateral established do not concern receivables.

(amounts in PLN 000s, unless otherwise stated)

Ageing structure of trade receivables	31 Dec 2016	31 Dec 2015
up to 1 month	36 476	32 952
1 - 3 months	3 763	4 323
3 - 6 months	21	-
6 - 12 months	-	-
over 1 year	-	-
Overdue	16 871	14 399
Impairment of receivables	(6 050)	(5 900)
Total net receivables	**51 081**	**45 774**

Ageing structure of overdue trade receivables	31 Dec 2016	31 Dec 2015
up to 1 month	7 649	5 163
1 - 3 months	1 409	654
3 - 6 months	694	566
6 - 12 months	867	2 225
over 1 year	6 252	5 790
Impairment of receivables	(6 050)	(5 900)
Total net overdue receivables	**10 821**	**8 499**

6.3.15 Short-term securities

	31 Dec 2016	31 Dec 2015
TFI certificates	-	11 138
Total short-term securities	**-**	**11 138**

Stakes in TFIs are measured at fair value in accordance with IFRS 13. The value of TFI shares is publicly disclosed.

(amounts in PLN 000s, unless otherwise stated)

6.3.16 Current prepayments, by title

	31 Dec 2016	31 Dec 2015
Insurance	392	243
Technical assistance	211	206
Fees for perpetual usufruct	-	2
Permits, alcohol concessions	25	51
Rents	69	154
Advertising	47	51
Subscriptions and annual fees	59	32
Electricity	2	2
Technical oversight for machinery	80	75
Costs incurred prior to location opening	35	109
Email	7	61
Costs to be re-invoiced	570	483
Purchase of rights to lease commercial premises	2 959	2 546
Year-end costs	710	678
Rebates granted	490	-
Costs related to store equipment and opening	336	-
Other	95	37
Total current prepayments, by title	**6 087**	**4 730**

6.3.17 Cash and cash equivalents

	31 Dec 2016	31 Dec 2015
Cash on hand	9 286	10 558
Cash at bank accounts	115 714	83 201
Other cash instruments	21 432	10 036
including: - cash expected to be received	13 543	5 839
Total cash	**146 432**	**103 795**

6.3.18 Other financial assets

	31 Dec 2016	31 Dec 2015
Loans issued	1 763	1 820
- including: to related parties	-	-
Measurement of other financial instruments	-	44
- including: to related parties	-	-
Total other financial assets	**1 763**	**1 864**

(amounts in PLN 000s, unless otherwise stated)

6.3.19 Share capital structure as at 31 December 2016

Series / issue	Type of share	Type of preference	Number of shares	Nominal value of series / issue	Method of payment	Registration date	Right to dividend (from date)
A	ordinary bearer	None	100 000	100 000	Cash	30.11.1994	30.11.1994
B	ordinary bearer	None	2 200 000	2 200 000	Cash	26.09.1995	01.01.1995
C	ordinary bearer	None	2 093 700	2 093 700	Cash	11.02.1999	01.01.1999
D	ordinary bearer	None	408 400	408 400	Cash	25.06.1999	01.01.1999
E	ordinary bearer	None	240 200	240 200	Cash	12.12.2001	01.01.2001
F	ordinary bearer	None	259 500	259 500	Cash	12.12.2001	01.01.2001
G	ordinary bearer	None	1 333 300	1 333 300	Cash	12.12.2001	01.01.2001
H	ordinary bearer	None	2 085 323	2 085 323	In-kind-contribution of shares in BOS S.A.	02.01.2007	01.01.2006
I	ordinary bearer	None	1 271 796	1 271 796	In-kind-contribution of shares in BOS S.A.	02.01.2007	01.01.2006
J	ordinary bearer	None	55 747	55 747	In-kind-contribution of shares in BOS S.A.	11.05.2007	01.01.2006
K	ordinary bearer	None	290 468	290 468	In-kind-contribution of shares in BOS S.A.	11.05.2007	01.01.2006
L	ordinary bearer	None	1 500 000	1 500 000	Cash	24.10.2007	01.01.2007
Ł	ordinary bearer	None	140 388	140 388	Cash and in-kind-contribution of shares in Maro-Markety Sp. z o.o.	12.02.2008	01.01.2007
M	ordinary bearer	None	82 144	82 144	Cash and in-kind-contribution of shares in Centrum Sp. z o.o.	12.02.2008	01.01.2007
N	ordinary bearer	None	122 429	122 429	Cash	06.06.2008	01.01.2007
P	ordinary bearer	None	64 428	64 428	Cash	09.09.2014	01.01.2014
P	ordinary bearer	None	43 976	43 976	Cash	16.01.2015	01.01.2014
P	ordinary bearer	None	25 527	25 527	Cash	09.09.2015	01.01.2015
P	ordinary bearer	None	17 950	17 950	Cash	30.09.2015	01.01.2015
P	ordinary bearer	None	4 773	4 773	Cash	31.01.2016	01.01.2015
P	ordinary bearer	None	1 978	1 978	Cash	30.11.2016	01.01.2016
Total number of shares			**12 342 027**				
Total share capital				**12 342 027**			
Nominal value per share = PLN 1							

There are no preference shares as to voting rights in Emperia Holding S.A.'s share capital. As at 31 December 2016, Elpro Development S.A. held 367 991 shares of Emperia Holding S.A., which are excluded from the count of percentage stakes in total voting rights at the Issuer's General Meeting.

All shares within Emperia Group's share capital are fully paid-in.

(amounts in PLN 000s, unless otherwise stated)

Share capital structure as at 31 December 2015

Series / issue	Type of share	Type of preference	Number of shares	Nominal value of series / issue	Method of payment	Registration date	Right to dividend (from date)
A	ordinary bearer	None	100 000	100 000	Cash	30.11.1994	30.11.1994
B	ordinary bearer	None	2 200 000	2 200 000	Cash	26.09.1995	01.01.1995
C	ordinary bearer	None	2 093 700	2 093 700	Cash	11.02.1999	01.01.1999
D	ordinary bearer	None	408 400	408 400	Cash	25.06.1999	01.01.1999
E	ordinary bearer	None	240 200	240 200	Cash	12.12.2001	01.01.2001
F	ordinary bearer	None	259 500	259 500	Cash	12.12.2001	01.01.2001
G	ordinary bearer	None	1 333 300	1 333 300	Cash	12.12.2001	01.01.2001
H	ordinary bearer	None	2 085 323	2 085 323	In-kind-contribution of shares in BOS S.A.	02.01.2007	01.01.2006
I	ordinary bearer	None	2 172 015	2 172 015	In-kind-contribution of shares in BOS S.A.	02.01.2007	01.01.2006
J	ordinary bearer	None	55 747	55 747	In-kind-contribution of shares in BOS S.A.	11.05.2007	01.01.2006
K	ordinary bearer	None	290 468	290 468	In-kind-contribution of shares in BOS S.A.	11.05.2007	01.01.2006
L	ordinary bearer	None	1 500 000	1 500 000	Cash	24.10.2007	01.01.2007
Ł	ordinary bearer	None	140 388	140 388	Cash and in-kind-contribution of shares in Maro-Markety Sp. z o.o.	12.02.2008	01.01.2007
M	ordinary bearer	None	82 144	82 144	Cash and in-kind-contribution of shares in Centrum Sp. z o.o.	12.02.2008	01.01.2007
N	ordinary bearer	None	122 429	122 429	Cash	06.06.2008	01.01.2007
P	ordinary bearer	None	64 428	64 428	Cash	09.09.2014	01.01.2014
P	ordinary bearer	None	43 976	43 976	Cash	16.01.2015	01.01.2014
P	ordinary bearer	None	25 527	25 527	Cash	09.09.2015	01.01.2015
P	ordinary bearer	None	17 950	17 950	Cash	30.09.2015	01.01.2015
Total number of shares			**13 235 495**				
Total share capital				**13 235 495**			
Nominal value per share = PLN 1							

There are no preference shares as to voting rights in Emperia Holding S.A.'s share capital. As at 31 December 2015, Elpro Development S.A. held 967 876 shares of Emperia Holding S.A., which were excluded from the count of percentage stakes in total voting rights at the Issuer's General Meeting.

All shares within Emperia Group's share capital are fully paid-in.

(amounts in PLN 000s, unless otherwise stated)

Changes in supplementary and reserve capital	Supplementary capital	Reserve capital
1 Jan 2016	**97 558**	**47 661**
2015 profit distribution - transfer to equity	-	25 442
Redemption of own shares	-	(337)
Reclassification of capital after settlement of all incentive schemes	2 347	-
31 Dec 2016	**99 905**	**72 766**
1 Jan 2015	**100 084**	**110 593**
2014 profit distribution - transfer to equity	-	337
Redemption of own shares	(2 526)	(63 269)
31 Dec 2015	**97 558**	**47 661**

6.3.20 Retained earnings

	31 Dec 2016	31 Dec 2015
Prior-period profit (loss)	19 925	(11 499)
Profit distribution - transfer to equity	(25 442)	(337)
Profit distribution - dividend	-	(16 528)
Profit (loss) for the period	50 551	48 356
Prior-period results of companies entered into consolidation	-	(44)
Equity-settled employee considerations	(423)	(23)
Total retained earnings	**44 611**	**19 925**

6.3.21 Non-current credit facilities, loans and debt instruments

	31 Dec 2016	31 Dec 2015
Finance leasing	600	1 658
Total credit facilities, loans, debt instruments and other non-current financial liabilities	**600**	**1 658**

6.3.22 Non-current liabilities

	31 Dec 2016	31 Dec 2015
Collateral deposits	3 472	3 357
- including: from subsidiaries	-	-
Total non-current liabilities	**3 472**	**3 357**

Collateral is not interest-bearing. Given the low value (materiality criterion), it is not subject to amortisation.

(amounts in PLN 000s, unless otherwise stated)

6.3.23 Provisions

	31 Dec 2016	31 Dec 2015
Employee benefit provisions	**12 004**	**10 407**
a) retirement pay	948	735
b) untaken holidays	7 067	5 191
c) annual pay bonuses	2 784	3 812
d) HR restructuring	7	55
e) overtime	515	454
f) actuarial gains / losses	683	160
Other provisions	**17 204**	**22 819**
a) audit of financial statements	338	102
b) awards for customers (loyalty programmes)	32	1 553
c) for liabilities	1 553	1 553
d) uninvoiced costs	1 675	1 342
e) onerous contracts	13 606	18 977
f) other	1	845
Total provisions	**29 208**	**33 226**

Provisions	**31 Dec 2016**	**31 Dec 2015**
Non-current	**10 474**	**14 600**
a) retirement pay	771	714
b) annual cash bonuses	-	120
c) onerous contracts	9 020	13 606
d) actuarial gains / losses	683	160
Current	**18 734**	**18 626**
a) retirement pay	177	21
b) untaken holidays	7 067	5 191
c) annual pay bonuses	2 784	3 692
d) HR restructuring	7	55
e) other current provisions	1 923	2 500
f) onerous contracts	4 586	5 371
g) uninvoiced costs	1 675	1 342
h) overtime	515	454
Total provisions	**29 208**	**33 226**

(amounts in PLN 000s, unless otherwise stated)

Change in employee benefit provisions	31 Dec 2016	31 Dec 2015
Employee benefit provision - retirement benefits - as at the beginning of period	**735**	**631**
Increases	295	170
Decreases	(82)	(66)
Employee benefit provision - retirement benefits - as at the end of period	**948**	**735**
Employee benefit provision - untaken holidays - as at the beginning of period	**5 191**	**3 768**
Increases	1 876	1 423
Decreases	-	-
Employee benefit provision - untaken holidays - as at the end of period	**7 067**	**5 191**
Employee benefit provision - annual cash bonuses - at the beginning of period	**3 812**	**1 569**
Increases	364	2 306
Decreases	(1 391)	(63)
Employee benefit provision - annual cash bonuses - at the end of period	**2 784**	**3 812**
HR restructuring provision as at the beginning of period	**55**	**278**
Increases	7	55
Decreases	(55)	(278)
HR restructuring provision as at the end of period	**7**	**55**
Employee benefit provision - overtime - as at the beginning of period	**454**	**295**
Increases	4 487	2 586
Decreases	(4 426)	(2 427)
Employee benefit provision - overtime - as at the end of period	**515**	**454**
Provisions for actuarial gains/losses at the beginning of period	**160**	**132**
Increases	523	29
Decreases	-	(1)
Provisions for actuarial gains/losses at the end of period	**683**	**160**
Employee benefit provisions as at the beginning of period	**10 407**	**6 673**
Increases	*7 552*	*6 569*
Decreases	*(5 954)*	*(2 835)*
Employee benefit provisions as at the end of period	**12 004**	**10 407**

(amounts in PLN 000s, unless otherwise stated)

Changes in other provisions	31 Dec 2016	31 Dec 2015
Onerous contracts provisions	18 977	24 713
Increases	-	-
Decreases	(5 371)	(5 736)
Onerous contracts provisions at the end of period	**13 606**	**18 977**
Other provisions at the beginning of period	3 843	3 507
Increases	20 768	16 544
Increases	(21 013)	(16 208)
Other provisions at the end of period	**3 598**	**3 843**
Other provisions at the beginning of period	**22 819**	**28 220**
Increases	20 769	16 544
Decreases	(26 384)	(21 945)
Other provisions at the end of period	**17 204**	**22 819**

*/ In 2012, in connection with the Group's exit from Delima supermarkets, store lease contracts were treated as onerous contracts and provisions were recognised. These provisions amounted to PLN 13 606 000 at the end of 2016. The Group also recognised an impairment loss on property, plant and equipment items intended for the performance of these contracts.

Employee benefit provision - post-employment benefits

One-off retirement/disability allowances	31 Dec 2016	31 Dec 2015
As at the beginning of period	**895**	**763**
including: long-term	*874*	*676*
short-term	*21*	*87*
Employment costs	266	123
including: current employment costs	*266*	*123*
Net interest on net liabilities	29	26
Actuarial (gains) losses	*523*	*28*
(Benefits paid out)	*(82)*	*(45)*
As at the end of period	**1 631**	**895**
including: long-term	*1 454*	*874*
short-term	*177*	*21*

(amounts in PLN 000s, unless otherwise stated)

Sensitivity analysis (impact of changes in indicators used for calculating pension benefits on liabilities as at 31 December 2016)

	One-off retirement/disability allowances
Discount rate increase by 0.5%	(60)
Discount rate decrease by 0.5%	60
Wage growth increase by 0.5%	62
Wage growth decrease by 0.5%	(60)
Turnover growth by 0.5%	-
Turnover decrease by 0.5%	-

The Group's liabilities for future employee benefits, including one-off retirement/disability allowances paid out after employment at the Group ends, are equal to the present value of the liabilities for these benefits.
Provisions for one-off retirement/disability allowances were calculated by an independent actuarial advisory firm using the projected unit credit method, based on information obtained from the Companies relating to the amounts of employee benefits and data supplied by the Companies, demographic and financial assumptions, as well as actuarial methods for measuring provisions. The projected unit credit method was used to calculate provisions for one-off retirement/disability allowances.

Key actuarial assumptions having impact on the level of employment benefit provisions as at 31 December 2016 were as follows:
- discount rate - 3.6% in 2017 and subsequent years,
- employee mortality - same as mortality for the entire population in Poland,
- incapacity for work - established based on the probabilities of employee mortality and age,
- expected future wage growth (nominal, including inflation) - 3.0% in 2017 and subsequent years,
- employee turnover - 7.5% annually (it was also assumed that turnover begins to decrease with age on a linear basis 10 years before retirement age, reaching 0% three years before retirement),
- retirement - individual retirement age for employees.

6.3.24 Deferred income tax provisions

	31 Dec 2016	31 Dec 2015
Deferred income tax provisions at the beginning of period	**4 497**	**2 681**
Increases	2 662	2 975
a) recognised through profit or loss	*2 662*	*2 975*
Decreases	**(1 671)**	**(1 159)**
a) recognised through profit or loss	*(1 671)*	*(1 159)*
Deferred income tax provisions at the end of period	**5 488**	**4 497**

(amounts in PLN 000s, unless otherwise stated)

Deferred income tax provisions, the basis of which are temporary differences resulting from:	31 Dec 2016	31 Dec 2015
Deduction of discount on bonds purchased	15	6
Difference between the balance sheet value and tax value of tangible assets	3 691	3 006
Other items	1 782	1 485
Deferred income tax provisions at the end of period	**5 488**	**4 497**

	31 Dec 2016	31 Dec 2015
Deferred income tax provisions:	**5 488**	**4 497**
- to be realised within 12 months	2 209	2 196
- to be realised after 12 months	3 279	2 301

6.3.25 Current credit facilities, loans and debt instruments

	31 Dec 2016	31 Dec 2015
Finance leasing	1 122	988
Total current credit facilities, loans and debt instruments	**1 122**	**988**

6.3.26 Current liabilities

	31 Dec 2016	31 Dec 2015
For products and services	343 158	323 128
including: towards related parties	-	-
Taxes and other state fees	22 608	17 847
Remuneration	16 000	14 281
Other liabilities	6 960	14 163
including: towards related parties	-	-
Total current liabilities	**388 725**	**369 419**

Ageing structure of trade payables	31 Dec 2016	31 Dec 2015
up to 1 month	188 461	184 515
1 - 3 months	66 187	61 306
3 - 6 months	408	408
6 - 12 months	1	1
over 1 year	10	-
Overdue	88 090	76 899
Total liabilities	**343 158**	**323 128**

(amounts in PLN 000s, unless otherwise stated)

Ageing structure of overdue trade payables	31 Dec 2016	31 Dec 2015
up to 1 month	83 420	73 589
1 - 3 months	3 557	2 024
3 - 6 months	1 032	709
6 - 12 months	62	148
over 1 year	20	429
Total overdue liabilities	**88 090**	**76 899**

6.3.27 Deferred revenue, by title

	31 Dec 2016	31 Dec 2015
Refund of transport-related damages	29	25
Refund of property damages	74	50
Contractual penalties	2 656	6 040
Loyalty programmes	1 702	1 093
Refund of fire-fighting equipment	1 012	360
Sale of services settled in time	314	276
Interest on collateral	113	109
Vouchers to be used in future periods	599	592
Reimbursements of remuneration for disabled employees	596	224
Other	222	14
Total deferred revenue, by title	**7 317**	**8 783**

(amounts in PLN 000s, unless otherwise stated)

6.3.28 Restatement of comparative data

The Group restated its comparative data in these financial statements as a result of presentation changes. The changes were intended to ensure a greater degree of transparency and consistency of the financial statements and to better reflect financial information from the reader's point of view.

The Group introduced changes in the presentation of specific items of revenue, costs, assets and liabilities, which did not have an impact on the previously presented amounts of total comprehensive income (including earnings per share) or equity. These changes did not necessitate restatement of the consolidated statement of cash flows.

Summary of changes introduced to comparative data:

a) Change in the way properties transferred for use pursuant to operating lease contracts are presented - presentation of the Group's properties divided into investments and tangible assets. Previously, all properties were presented as tangible assets; currently, properties worth PLN 127 116, which the Group rents out to external counterparties, are presented in the investment properties item. The Group uses the historic cost model for investment properties therefore this change has no impact on the measurement of these assets.

b) Change in the presentation of the Group's revenue from the sale of marketing services, calculated based on a percentage of the value of goods sold that constitute rebates received from suppliers - previously the value of this revenue, amounting to PLN 16 630, was presented as revenue from the sale of services. Following the change, in order to reliably reflect the economic content of transactions, the value of this revenue decreases the cost of goods sold.

c) Change in the presentation of marketing costs - previously a part of marketing costs related to advertising for the entire store chain was presented by the Group as administrative expenses. Following the change, these costs, amounting to PLN 19 324, are presented in selling costs.

Restatement of the statement of comprehensive income for 2015

		12 months ended 31 Dec 2015 (reported)	Presentation change	12 months ended 31 Dec 2015 (restated)
Revenue from sales, including:		2 094 640	(16 630)	2 078 010
Revenue from sale of services	b)	127 930	(16 630)	111 300
Value of goods and materials sold	b)	(1 475 064)	16 630	1 458 434
Selling costs	c)	(477 523)	(19 324)	(496 847)
Administrative expenses	c)	(69 879)	19 324	50 555

Restatement of the statement of financial position as at 31 December 2015

		As at 31 December 2015 (reported data)	Presentation change	As at 31 December 2015 (restated)
Investment properties	a)	-	127 116	127 116
Property, plant and equipment	a)	522 956	(127 116)	395 840

(amounts in PLN 000s, unless otherwise stated)

6.3.29 Net revenue from sale of services

	12 months ended 31 Dec 2016	12 months ended 31 Dec 2015
Sale of services	127 197	111 300
- including: from related parties	-	-
Total net revenue from sale of services	**127 197**	**111 300**
- including: from related parties		-

Net revenue from sales of services (geographical structure)	12 months ended 31 Dec 2016	12 months ended 31 Dec 2015
Domestic	122 879	108 570
- including: from related parties	-	-
Export	4 318	2 730
- including: from related parties	-	-
Total net revenue from sale of services	**127 197**	**111 300**
- including: from related parties		-

6.3.30 Net revenue from sale of goods and materials

Net revenue from sale of goods and materials (product structure - types of activities)	12 months ended 31 Dec 2016	12 months ended 31 Dec 2015
Sale of goods and materials	2 323 553	1 966 710
- including: from related parties	-	-
Total net revenue from sale of goods and materials	**2 323 553**	**1 966 710**
- including: from related parties	-	-

Total net revenue from sale of goods and materials (geographical structure)	12 months ended 31 Dec 2016	12 months ended 31 Dec 2015
Domestic	2 323 519	1 966 709
- including: from related parties	-	-
Export	34	1
- including: from related parties	-	-
Total net revenue from sale of goods and materials	**2 323 553**	**1 966 710**
- including: from related parties		-

(amounts in PLN 000s, unless otherwise stated)

6.3.31 Other operating revenue

	12 months ended 31 Dec 2016	12 months ended 31 Dec 2015
Gain on disposal of other non-financial non-current assets	14 007	8 197
Impairment of non-financial assets	270	96
Other operating revenue	10 008	7 813
Total other operating revenue	**24 285**	**16 106**

Revaluation of financial and non-financial assets	12 months ended 31 Dec 2016	12 months ended 31 Dec 2015
Recognition of tangible asset impairment (negative value)	(274)	-
Reversal of tangible asset impairment	301	-
Recognition of receivables impairment (negative value)	(419)	(611)
Reversal of receivables impairment	662	707
Total impairment of financial and non-financial assets	**270**	**96**

Other operating revenue	12 months ended 31 Dec 2016	12 months ended 31 Dec 2015
Contractual penalties received	2 971	3 043
Compensation from transport insurance	366	292
Compensation from property insurance	538	504
Other compensation	920	78
Outdated liabilities	-	12
Awarded legal costs	227	52
VAT refund	41	7
Refund of staff costs	2 862	2 600
Asset donations	-	416
Cash overage	329	232
Rounding	1	371
Settlement over time of refunds and assets received free-of-charge	-	54
Goods received free-of-charge	888	-
Rounding related to packaging collateral	443	-
Other revenue	422	152
Total other operating revenue	**10 008**	**7 813**

(amounts in PLN 000s, unless otherwise stated)

6.3.32 Costs by nature

	12 months ended 31 Dec 2016	12 months ended 31 Dec 2015
Depreciation / amortisation	(48 935)	(44 503)
Use of materials and energy	(96 524)	(92 054)
Third-party services	(194 674)	(160 869)
Salaries	(248 529)	(211 086)
Employee benefits	(58 513)	(50 279)
Taxes and fees	(11 046)	(11 022)
Other costs	(2 319)	(2 208)
Total costs by nature	**(660 540)**	**(572 021)**
Selling costs	(575 502)	(496 847)
Administrative expenses	(56 548)	(50 555)
Cost of manufacture of services sold	(28 490)	(24 619)

Employment costs	12 months ended 31 Dec 2016	12 months ended 31 Dec 2015
Remuneration, including:	(248 529)	(211 086)
- HR restructuring provision	*(7)*	*(54)*
Social security	(46 716)	(40 182)
Workplace social security fund	(6 719)	(5 957)
Training	(720)	(544)
Other	(4 359)	(3 596)
Total employment costs	**(307 042)**	**(261 365)**

6.3.33 Other operating expenses

		12 months ended 31 Dec 2016	12 months ended 31 Dec 2015
Loss on disposal of non-financial non-current assets		(984)	(216)
Impairment of non-financial assets		(335)	(998)
Other operating expenses	6.3.34	(8 109)	(8 354)
Total other operating expenses		**(9 428)**	**(9 568)**

(amounts in PLN 000s, unless otherwise stated)

Revaluation of financial and non-financial assets	12 months ended 31 Dec 2016	12 months ended 31 Dec 2015
Recognition of tangible asset impairment (negative value)	-	(383)
Reversal of tangible asset impairment	-	80
Recognition of receivables impairment (negative value)	(1 130)	(1 345)
Reversal of receivables impairment	795	650
Total revaluation of financial and non-financial assets	**(335)**	**(998)**

6.3.34 Other operating expenses

	12 months ended 31 Dec 2016	12 months ended 31 Dec 2015
Donations	(236)	(30)
Transport-related damages	(271)	(296)
Property damages	(596)	(553)
Other damages	(194)	(3 964)
Impairment of current property, plant and equipment	-	(94)
Collateral written-off	(3 044)	(2 089)
Legal costs	(41)	(269)
Transfer of contractual rights	-	(438)
Rounding up of collateral for packaging	-	(255)
Compensation for exiting a location	(716)	-
Non-deductible VAT	(6)	-
Sub-contractors’ claims	(46)	-
Rounding up of collateral for packaging	(827)	-
Balances written off	(1 593)	-
Other costs	(83)	(366)
Contractual penalties	(456)	
Total other operating expenses	**(8 109)**	**(8 354)**

(amounts in PLN 000s, unless otherwise stated)

6.3.35 Finance income

	12 months ended 31 Dec 2016	12 months ended 31 Dec 2015
Interest, including:	768	770
- from related parties	-	-
Gain on disposal of investments	178	533
Other finance income	-	218
Total finance income	**946**	**1 521**

Interest income on bonds	**12 months ended 31 Dec 2016**	**12 months ended 31 Dec 2015**
Interest on loans	119	19
- including: from related parties	-	-
Interest on bank deposits	559	582
Interest on overdue receivables	84	169
- including: from related parties	-	-
Interest on bonds	6	
Total interest on bonds	**768**	**770**

Other finance income	**12 months ended 31 Dec 2016**	**12 months ended 31 Dec 2015**
Positive exchange differences	-	61
Share of insurers' profits	-	113
Gain on changes in fair value of financial instruments	-	44
Total other finance income	**-**	**218**

6.3.36 Finance costs

	12 months ended 31 Dec 2016	12 months ended 31 Dec 2015
Interest, including:	(639)	(1 497)
- for subsidiaries	-	-
Loss on disposal of investments	(38)	-
Other finance costs	(739)	(606)
Total finance costs	**(1 416)**	**(2 103)**

(amounts in PLN 000s, unless otherwise stated)

Interest costs	12 months ended 31 Dec 2016	12 months ended 31 Dec 2015
Interest on bank credit	(285)	-
Interest on finance leasing	(207)	(244)
- including: from related parties	-	-
Interest on overdue receivables	(105)	(1 187)
- including: from related parties	-	-
Interest on issued bonds	(38)	-
- including: from related parties	-	-
Statutory interest	(4)	(66)
Total cost of interest income	**(639)**	**(1 497)**

Other finance costs	12 months ended 31 Dec 2016	12 months ended 31 Dec 2015
Cost of bank guarantees	(184)	(190)
Negative exchange differences	(318)	(100)
Impairment of financial assets	(164)	(191)
Interest cost on employee provisions	(29)	(26)
Balance sheet measurement of liabilities and receivables	(44)	-
Bond issue costs	-	(94)
Other	-	(5)
Total other finance costs	**(739)**	**(606)**

Profit or loss, by category of instrument	12 months ended 31 Dec 2016	12 months ended 31 Dec 2015
Interest income		
Bank deposits	559	582
Loans issued	119	19
Trade receivables	84	169
Interest on bonds	6	-
Total interest income	**768**	**770**
Interest costs		
Short- and long-term credit facilities	(285)	-
Finance leasing	(207)	(244)
Trade payables	(105)	(1 187)
Bonds issued	(38)	-
Total interest costs	**(635)**	**(1 431)**

(amounts in PLN 000s, unless otherwise stated)

6.3.37 Effective tax rate

	12 months ended 31 Dec 2016	12 months ended 31 Dec 2015
Gross profit	61 232	53 511
Tax in profit or loss	10 681	5 155
Preliminary effective tax rate (%)	17.5%	9.7%
Differences on deferred tax	(79)	2 358
Tax effects of non-taxable revenues, according to tax regulations	1 939	115
Tax effects of non-deductible costs, according to tax regulations	(2 695)	(1 816)
Tax effect of tax losses incurred in period	(33)	804
Effect of tax losses for which no deferred tax asset was recognised in previous years	1 841	1 270
Tax effect related to tax loss capitalisation	-	2 330
Adjustment of prior-period tax	-	(44)
After taking into consideration the explanations	11 654	10 171
Effective tax rate after explanations (%)	19%	19%

6.3.38 Deferred income tax recorded in profit or loss

	12 months ended 31 Dec 2016	12 months ended 31 Dec 2015
Decrease (increase) from recognition and reversal of temporary differences	(2 660)	(459)
Decrease (increase) from previously unrecognised tax losses, tax benefits or prior-period temporary differences	-	2 330
Decrease (increase) due to deferred income tax from consolidation	(2 386)	45
Total deferred income tax recorded in profit or loss	**(5 046)**	**1 916**

(amounts in PLN 000s, unless otherwise stated)

6.3.39 Earnings per share for the period

	12 months ended 31 Dec 2016	12 months ended 31 Dec 2015
Profit / loss for the period	50 551	48 356
Weighted average number of shares	12 086 113	12 506 772
Weighted average diluted number of ordinary shares	12 086 113	12 508 001
Profit (loss) per share (in PLN)	4,18	3,87
Diluted profit (loss) per share	4,18	3,87

Basic earnings per share are calculated by dividing the net profit for the period attributable to common shareholders by the weighted average number of issued ordinary shares during the year, adjusted by shares held by the Company.

Diluted earnings per share are calculated by dividing the net profit for the period attributable to common shareholders of Emperia Group (less interest on convertible preference shares) by the weighted average number of issued ordinary shares for the year, adjusted by shares held by the Company and the weighted average number of shares that were issued upon conversion of the potentially dilutive ordinary shares to ordinary shares. In 2015 and 2016, the Company took into consideration the dilutive effect of the bonds awarded to employees under the 2010 and 2011 tranches of the 2nd Management Options Programme - 2010-2012.

6.3.40 Cash and cash equivalents structure

	12 months ended 31 Dec 2016	12 months ended 31 Dec 2015
Cash on hand		
- as at the beginning of period	10 558	7 511
- as at the end of period	9 286	10 558
Cash at bank accounts		
- as at the beginning of period	83 201	92 814
- as at the end of period	115 714	83 201
Other cash instruments		
- as at the beginning of period	10 036	14 110
- as at the end of period	21 432	10 036
Total cash		
- as at the beginning of period	**103 795**	**114 435**
- as at the end of period	**146 432**	**103 795**

(amounts in PLN 000s, unless otherwise stated)

6.3.41 Off-balance sheet items

Off-balance sheet liabilities concern collateral for credit facilities and bank guarantees provided to the Group as well as security interests.

Changes in off-balance sheet liabilities during 2016	Credit facilities	Bank guarantees	Security interests
Mortgages			
As at the beginning of period	-	-	-
Increases during the period	30 000	-	-
Decreases during the period	-	-	-
As at the end of period	**30 000**	**-**	**-**
Transfer of ownership / pledge / assignment of current assets			
As at the beginning of period	-	15 000	-
Increases during the period	-	-	-
Decreases during the period	-	-	-
As at the end of period	**-**	**15 000**	**-**
Guarantees			
As at the beginning of period	-	47 500	9 646
Increases during the period	-	-	6 850
Decreases during the period	-	(22 500)	(7 171)
As at the end of period	**-**	**25 000**	**9 325**

Changes in off-balance sheet liabilities during 2015	Credit facilities	Bank guarantees	Security interests
Transfer of ownership / pledge / assignment of current assets			
As at the beginning of period	-	15 000	-
Increases during the period	-	-	-
Decreases during the period	-	-	-
As at the end of period	**-**	**15 000**	**-**
Guarantees			
As at the beginning of period	-	47 500	23 246
Increases during the period	-	-	2 250
Decreases during the period	-	-	(15 850)
As at the end of period	**-**	**47 500**	**9 646**

(amounts in PLN 000s, unless otherwise stated)

6.3.42 Financial and operating leasing

a) Finance lease liabilities

Finance lease liabilities	31 Dec 2016 Minimum payments	31 Dec 2016 Present value of minimum payments
Within 1 year	1 203	1 097
Within 1 to 5 years	603	586
Within more than 5 years	-	-
Total	**1 806**	**1 683**

Finance lease liabilities	31 Dec 2015 Minimum payments	31 Dec 2015 Present value of minimum payments
Within 1 year	1 203	1 002
Within 1 to 5 years	1 806	1 683
Within more than 5 years	-	-
Total	**3 009**	**2 685**

b) Arrangements containing a lease component in accordance with IFRIC 4

2016	Term of agreement	As at 31 Dec 2016	As at 31 Dec 2017	1 to 5 years	Over 5 years
		Minimum annual payment			
Property	specified	96 213	102 790	411 160	512 454
	unspecified	2 981	3 190	12 762	15 952
Technical equipment and machinery	specified	189	56	1	0
	unspecified	141	179	715	893
Means of transport	specified	7 963	8 248	3 834	0
	unspecified	-	-	-	-

A 10-year period has been adopted for agreements with an undefined term.

(amounts in PLN 000s, unless otherwise stated)

2015	Term of agreement	As at 31 Dec 2015	As at 31 Dec 2016 Minimum annual payment	1 to 5 years	Over 5 years
Property	specified	90 715	95 224	380 191	474 920
	unspecified	2 326	2 526	10 104	12 630
Technical equipment and machinery	specified	28	167	-	-
	unspecified	97	101	404	505
Means of transport	specified	7 024	6 970	15 054	-
	unspecified	-	-	-	-

A 10-year period has been adopted for agreements with an undefined term.

6.3.43 Liabilities towards central or local government authorities for acquisition of ownership rights to buildings and structures

The Group does not have liabilities towards central or local government authorities for acquisition of ownership rights to buildings and structures.

6.3.44 Liabilities incurred in connection with purchase of property, plant and equipment

Emperia Group companies did not incur material liabilities in connection with the purchase of property, plant and equipment in 2016.

6.3.45 Emperia Holding S.A.'s related-party transactions

In 2016, Emperia Holding S.A. did not execute any significant transactions with related parties other than transactions in the ordinary course of business on market terms and those connected with capital increases or capital contributions at subsidiaries.

(amounts in PLN 000s, unless otherwise stated)

6.3.46 Average employment

Item	Average employment in 2016 (staff count)		
	Total	White collar workers	Blue collar workers
Emperia Holding S.A.	64	63	1
Stokrotka Sp. z o.o.	8 279	1 956	6 323
Infinite Sp. z o.o.	187	186	1
Elpro Development S.A.	1	1	-
TOTAL	**8 531**	**2 206**	**6 325**

Other Emperia Group companies did not employ any staff in 2016.

Item	Average employment in 2015 (staff count)		
	Total	White collar workers	Blue collar workers
Emperia Holding S.A.	63	62	1
Stokrotka Sp. z o.o.	7 367	1 690	5 677
Infinite Sp. z o.o.	174	173	1
TOTAL	**7 604**	**1 925**	**5 679**

Other Emperia Group companies did not employ any staff in 2015.

6.3.47 Remuneration of the Issuer's Management Board and Supervisory Board members

As specified in the relevant regulations established by the Supervisory Board, the remuneration of Emperia Holding S.A.'s Management Board comprises a salary component and a pay bonus component.

Remuneration paid to Emperia Holding S.A.'s Management Board members in 2016 (cash basis):

First and last name	Total salary	Pay bonus	TOTAL
Kalinowski Dariusz	102.00	184.00	286.00
Baran Cezary	120.00	37.50	157.50
TOTAL	**222.00**	**221.50**	**443.50**

Remuneration paid to Emperia Holding S.A.'s Management Board members in 2016 for work at subsidiaries (cash basis):

(amounts in PLN 000s, unless otherwise stated)

First and last name	TOTAL
Kalinowski Dariusz	636.96
Baran Cezary	299.46
TOTAL	**936.42**

In addition, all members of Emperia Holding S.A.'s Management Board serve on the board of directors of EMP Investment Ltd;

Management Options Programme II 2010-2012

As Emperia Group's parent, Emperia Holding S.A. is participating in the 2nd Management Options Programme - 2010-2012.
On 4 March 2010, Emperia Holding S.A.'s extraordinary general meeting adopted a resolution on implementation of the 2nd Incentive Programme - 2010-2012 and introduced changes to the Programme at a meeting on 6 December 2011.
The programme will be performed over 2010-2012. The Programme is addressed to the Management Boards of the Company and subsidiaries as well as their key managers. The objective of the Programme is to create a long-term link between Emperia Group and high-quality specialists, to ensure proper growth and improved performance at the Group.

Key programme documents:

1. Resolution 2 of Emperia Holding S.A.'s extraordinary general meeting of 4 March 2010 on the Incentive Programme 2010-2012 Regulations and on the Incentive Programme;
2. Resolution 2 of Emperia Holding S.A.'s extraordinary general meeting of 6 December 2011 concerning changes to Resolution No 2 of Emperia Holding S.A.'s extraordinary general meeting of 4 March 2010 on the Incentive Programme 2010-2012 Regulations and on the Incentive Programme;
3. Emperia Holding S.A.'s Management Options Regulations;
4. List of persons participating in the Programme, approved by Emperia Holding S.A.'s Supervisory Board.

Key programme assumptions:
Size of the programme: a maximum of 450 000 registered bonds with priority rights to ordinary bearer shares series P with nominal value of PLN 1.00 each.

The bonds will be issued in three tranches. Under each of the tranches, the following quantities of bonds may be purchased by authorised persons: (i) 150 000 bonds with rights to 150 000 shares under the 1st tranche, (ii) 150 000 bonds with rights to 150 000 shares under the 2nd tranche, (iii) 150 000 bonds with rights to 150 000 shares under the 3rd tranche,
The options programme will be implemented on the following dates: (i) 1st tranche - from 1 July 2014 to 30 June 2018, (ii) 2nd tranche - from 1 July 2015 to 30 June 2019, (iii) 3rd tranche - from 1 July 2016 to 30 June 2020.

The par value and issue price of one bond is PLN 0.01. The option's base instrument is the Company's shares listed on the WSE.

The issue price of the shares offered under the programme constitutes the equivalent of the average closing share price on the WSE for the 90 days preceding the date on which Resolution 2, point 2 concerning the 2010-2012 Incentive Programme, is adopted, less 5%.
The options granted under each tranche are divided into two parts:

- Financial Part (constituting 75% of the tranche), granted if the Company's Financial Target is reached,
- Market Part (constituting 25% of the tranche), granted if the Company's Market Target is reached.

Financial Target: consolidated diluted net earnings per share of PLN 5.62 in 2010, PLN 6.75 in 2011 and PLN 8.10 in 2012. If the Financial Target is achieved in 100%, then 100% of the options will be granted. If the Financial Target is met only in 80% or less, then no options will be awarded.
Market Target: total return on investment in Emperia shares not lower than WIG.
- authorised persons must be continually employed between the date on which they are entered onto the list of authorised persons and 31 December of 2010, 2011 and 2012, depending on the tranche;

Resolution 2 of Emperia Holding S.A.'s extraordinary general meeting of 6 December 2011 concerning changes to Resolution 2 of Emperia Holding S.A.'s extraordinary general meeting of 4 March 2010 on the 2010-2012 Incentive Programme Regulations and on the Incentive Programme aims to: (i) provide a more precise definition of the Financial Target for the purposes of the Incentive Programme - the Financial Target will not include results on transactions consisting of the sale of shares, companies, organised business units and properties to entities outside Emperia Group; (ii) provide a more precise method for determining the share issue price on the options exercise date in the event that the Company pays a dividend advance and/or dividend in the total amount exceeding 40% of the consolidated net profit for the previous year; (iii) specify the procedure for when an entity, acting individually or in concert, exceeds the 33% threshold in the total number of votes in the Company (acquisition of control).
The Company measured the programme at fair value on its inception, in accordance with IFRS 2. The measurements were prepared using modern financial engineering and numerical methods by an independent expert based on the Monte-Carlo valuation model.

The programme's fair value is amortised throughout its duration. The programme's fair value is presented in the statement of profit and loss as management options programme costs, alongside an increase in supplementary capital. The programme's fair value recognised in the Company's statement of profit and loss for 2011 was PLN 1 071 531 and for 2010: PLN 1 591 211.
The following were taken into consideration in measuring the 2011 tranche: an input price for the model (share price at the award date) of PLN 113 per share, instrument exercise price of PLN 79.82, expected change of 35%, risk-free interest rate of 5.5% and expected dividend: PLN 3.56 per share in 2012, PLN 4.56 per share in 2013, and assuming 15% dividend growth in subsequent years.
The following were taken into consideration in measuring the 2010 tranche: an input price for the model (share price at the award date) of PLN 75.50 per share, instrument exercise price of PLN 79.82, expected change of 39%, risk-free interest rate of 5.5% and expected dividend: PLN 0.92 per share in 2010, PLN 1.12 per share in 2011, PLN 1.35 per share in 2012 and PLN 1.60 per share in 2013, and assuming 15% dividend growth in subsequent years.

Execution of Management Options Programme II 2010-2012 - tranche for 2010

In 2014, in connection with the Management Options Programme II 2010-2012 - tranche for 2010, the Company issued 114 564 registered bonds series A with priority rights to the Issuer's series P shares. The per-bond issue price was PLN 0.01. The issue of Bonds was carried out by sending a proposal to purchase bonds by Millennium DM S.A., based in Warsaw, acting as trustee. The Trustee sold Bonds only to the Authorised Persons participating in the Incentive Programme. Each of the Bonds entitles the Bondholder to subscribe for one ordinary bearer share series P, with pre-emptive rights for the Company’s shareholders. The issue price for Series P Shares, calculated as at the date of the Bond issue, was PLN 24.82, and PLN 24.40 from 1 July 2015. A change in the issue price may take place each year after the Company’s pays out a dividend. The pre-emptive right to subscribe for and acquire Series P shares is available to Authorised Persons during the period from 1 July 2014 to 30 June 2018.
At 31 December 2016, all bonds were redeemed.

Execution of Management Options Programme II 2010-2012 - tranche for 2011

In 2015, in connection with the Management Options Programme II 2010-2012 - tranche for 2010, the Company issued 44 068 registered bonds series A with priority rights to the Issuer's series P shares. The per-bond issue price was PLN 0.01. The issue of Bonds was carried out by sending a proposal to purchase bonds by Millennium DM S.A.,

(amounts in PLN 000s, unless otherwise stated)

based in Warsaw, acting as trustee. The Trustee sold Bonds only to the Authorised Persons participating in the Incentive Programme. Each of the Bonds entitles the Bondholder to subscribe for one ordinary bearer share series P, with pre-emptive rights for the Company's shareholders. The issue price for Series P Shares, calculated as at the date of the Bond issue, is PLN 24.40. A change in the issue price may take place each year after the Company's pays out a dividend. The pre-emptive right to subscribe for and acquire Series P shares is available to Authorised Persons during the period from 1 July 2014 to 30 June 2018.
At 31 December 2016, all bonds were redeemed.

Remuneration of Emperia Holding S.A. Supervisory Board members in 2016:

First and last name	Salary
Kawa Artur	86.40
Kowalczewski Michał	43.20
Laskowski Artur	43.20
Wawerski Jarosław	43.20
Widera Aleksander	43.20
TOTAL	**259.20**

6.3.48 Information on agreements with entities authorised to audit financial statements and remuneration for such an entity for the financial year

In 2016, the Group executed an agreement concerning audit and review of the 2016 semi-annual and annual consolidated financial statements with ECA Seredyński i Wspólnicy Sp. k., based in Kraków - an entity authorised to audit financial statements, entered onto to the list maintained by the Polish Chamber of Statutory Auditors under no. 3115. The Company retained the above statutory auditor to audit financial statements for 2010-2015.

On 19 January 2017, the Management Board of Emperia Holding S.A. announced that the Supervisory Board had adopted a resolution on a change of statutory auditor for the Company for 2016 and the appointment of a statutory auditor for 2017. Given the above,
PricewaterhouseCoopers Sp. z o.o., based in Warsaw, Al. Armii Ludowej 14, was selected to audit the separate and consolidated financial statements of Emperia Holding S.A. for 2016 as well as review and audit the Company's separate and consolidated financial statements for 2017. Armii Ludowej 14. PricewaterhouseCoopers Sp. z o.o. is an entity authorised to audit financial statements, entered onto the list of entities authorised to audit financial statements by the National Chamber of Statutory Auditors under number 144. The Company did not previously use the services of this statutory auditor as regards audit and review of financial statements.

Fees for the entity authorised to audit financial statements	2016	2015
Review and audit of financial statements	443	152
Tax advisory services	4	4
Other services	-	-
Total	**447**	**156**

6.3.49 Changes in composition of the Issuer's Management Board and Supervisory Board

Management Board

Dariusz Kalinowski – President of the Management Board

- 14 years with Emperia Holding S.A.
- Graduated from the University of Szczecin, Economics Department
- MBA from the European University Centre for Management Studies in Switzerland
- President of the Management Board, Stokrotka Sp. z o.o.

Cezary Baran – Vice-President of the Management Board

- 16 years with Emperia Holding S.A.
- Graduated from the Maria Curie-Skłodowska University, Economics Department
- Investment adviser licence no. 241
- Member of the Management Board, Finance Director, Stokrotka Sp. z o.o.

The composition of the Management Board of Emperia Holding S.A. did not change in 2016.

On 3 June 2016, the Supervisory Board of Emperia Holding S.A. re-appointed existing members of the Issuer's Management Board - Dariusz Kalinowski and Cezary Baran - for a new term.

Supervisory Board

Artur Kawa – Chairman

- Co-founder of Emperia Holding S.A.
- Was President of the Management Board, Emperia Holding S.A. from founding to 2013
- Graduated from the Lublin University of Technology, Electrical Engineering Faculty
- MBA from the University of Minnesota

Artur Laskowski – Member

- Co-founder of BOS S.A. (acquired by Emperia Holding S.A.), long-term management board member of the Company

Michał Kowalczewski – Independent Member

- PhD in economic sciences; graduate of Warsaw School of Economics (SGH) Finance and Statistics Department

Jarosław Wawerski – Member

- Co-founder of Emperia Holding S.A.
- Graduated from the Lublin University of Technology, Electrical Engineering Faculty
- Vice-President of Emperia Holding's management board during 1995-2012

Aleksander Widera – Member

- Degree in Finance and Banking from the Warsaw School of Economics, completed post-graduate studies in management at the same university

Composition of Emperia Holding S.A.'s Supervisory Board was not subject to changes in 2016.

On 30 June 2016, an Ordinary General Meeting of Emperia Holding S.A. re-appointed Artur Kawa as Chairman of the Supervisory Board and Michał Kowalczewski as Deputy Chairman of the Supervisory Board for a new term.

6.3.50 Financial risk management

The Group's operations are exposed to the following financial risks:

a) credit risk,
b) liquidity risk,
c) market risk,
   - currency risk,
   - interest rate risk,
   - other pricing risk.

The Group's financial risk is managed by the Management Board of Emperia Holding S.A., which identifies and assesses threats and protects the Group from them so as to minimise any potential adverse impact on financial results. The Management Board sets out overall risk management rules and policy regarding specific risks, taking into account the needs of specific subsidiaries. The Management Board's policy is implemented by cells responsible for ensuring financial liquidity, security, monitoring and recovery of receivables as well as timely payment of liabilities.

a) credit risk – risk that one of the parties to a financial instrument fails to meet its obligations, causing the Group to incur financial losses. Credit risk concerns receivables, cash and cash equivalents, bank deposits, purchased bonds and collateral provided.
The Group's main operating segment - retail - due to its specific nature is insignificantly exposed to this type of risk. The segment's sales are to retail customers, in cash or via payment cards.
Other segments' revenue is largely generated on deferred payment terms. However, the fragmentation of the customer base makes it so that exposure to singular credit risk is not high. The Group applies internal procedures and mechanisms that limit this element of risk: appropriate selection of customers, new customer verification system, use of credit limits and collateral, on-going receivables monitoring. The Group consistently pursues recovery of overdue receivables and recognises impairment losses on an on-going basis.
The Group places its cash at reliable financial institutions (selected based on ratings). Bonds are short-term bonds issued by Group companies. Credit risk at the Group is insignificant.

b) liquidity risk – risk that the Group will have difficulties in meeting its liabilities resulting from financial commitments. The Group ensures that liquidity is maintained at an appropriate, safe level. After budget preparations, the Group requests appropriate credit lines at the financial institutions with which it cooperates. As regards external financing, the Group uses loans and bonds issued by selected Group companies. Aside from financing operations, bonds also play a role in the optimisation of liquidity within the Group. Cooperation with numerous financial institutions that provide secured financial instruments diversified liquidity risk. Financial personnel monitor the Group's financial situation and payment capacity on an on-going basis.

In 2016, the Group did not use external financing sources. Liquidity risk at the Group is insignificant.

c) market risk – risk that the fair value of a financial instrument or future cash flows related therewith will be subject to fluctuations due to changes in market prices. This risk covers three types of risk: currency risk, interest rate risk and other pricing risk

currency risk – risk that the fair value of a financial instrument or future cash flows related therewith will be subject to fluctuations due to changes in exchange rates. The Group does not use any FX or foreign currency-denominated debt instruments. An immaterial part of receivables - foreign-currency receivables in the IT segment (these constituted 1.2% of total trade receivables in 2016) - and an immaterial part of payables - foreign-currency payables in the retail segment (these constituted 0.61 of all trade payables in 2016) are exposed to foreign exchange risk. Moreover, fragmentation of the customer base means that exposure to singular currency risk is very low.
Currency risk concerns the Group in an immaterial scope.

interest rate risk – risk that the fair value of a financial instrument or future cash flows related therewith will be subject to fluctuations due to changes in market interest rates. The Group invests excess funds in interest-paying assets, therefore it is exposed to risk connected with changes in interest rates. Interest rate risk arises on issue and purchase of bonds within the Group. These transactions are aimed at liquidity management at the Group, and changes in interest rates do not affect financial results (there are bi-directional, offsetting cash flows).
The Group's main risk connected with interest rate changes has to do with debt instruments.
In 2016, the Group barely used external debt instruments with variable interest (credit facilities and bonds), in connection with which it faced no exposure to changes in cash flows as a result of changes in interest rates.

other pricing risk – risk that the fair value of a financial instrument or future cash flows related therewith will be subject to fluctuations due to changes in market prices (other than those resulting from interest rate risk or currency risk), regardless of whether such changes are caused by instrument- or issuer-specific factors or factors affecting all similar financial instruments that are traded on a market. The Group does not use financial instruments that carry pricing risk. The Group is not exposed to any other pricing risks.

(amounts in PLN 000s, unless otherwise stated)

Classification of financial instruments as per IAS 39 and IAS 27

Financial assets by balance sheet item	**2016** fair value	**2016**book value	Classification of financial instruments as per IAS 39 (book value)						at purchase price
			Carried at fair value through profit or loss		Carried at fair value with changes in equity		Carried at amortised cost		
			Designated at initial recognition	Held for trading	Available for sale	Hedge accounting	Loans and receivables	Held to maturity	
Financial assets									
Shares	37	37	-	-	-	-	-	-	37
Loans	263	263	-	-	-	-	263	-	-
Non-current	*263*	*263*	-	-	-	-	*263*	-	-
short-term	-	-	-	-	-	-	-	-	-
Non-current collateral and other receivables	5 532	5 532	-	-	-	-	5 532	-	-
Trade receivables	51 081	51 081	-	-	-	-	51 081	-	-
Receivables not mentioned above, constituting financial assets	21 776	21 776	-	-	-	-	21 776	-	-
Short-term securities	-	-	-	-	-	-	-	-	-
Debt instruments	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	146 432	146 432	-	-	-	-	146 432	-	-

Financial liabilities by balance sheet item	**2016** fair value	**2016**book value	Classification of financial instruments as per IAS 39 (book value)					Other (book value)	
			Carried at fair value through profit or loss		Carried at amortised cost	Carried at fair value with changes in equity			
			Designated at initial recognition	Held for trading		Hedge accounting			
Financial liabilities									
Credit facilities	-	-	-	-	-	-	-	-	-
Non-current	-	-	-	-	-	-	-	-	-
short-term	-	-	-	-	-	-	-	-	-
Loans	-	-	-	-	-	-	-	-	-
Non-current *short-term*	-	-	-	-	-	-	-	-	-
Finance leasing	1 722	1 722	-	-	1 722	-	-	-	-
Long-term	*600*	*600*	-	-	*600*	-	-	-	-
Short-term	*1 122*	*1 122*	-	-	*1 122*	-	-	-	-
Non-current collateral and other liabilities	3 472	3 472	-	-	3 472	-	-	-	-
Debt instruments	-	-	-	-	-	-	-	-	-
Measurement of other instruments - derivatives	-	-	-	-	-	-	-	-	-
Trade payables	343 157	343 1578	-	-	343 157	-	-	-	-
Non-financial liabilities other than those above	22 960	22 960	-	-	22 960	-	-	-	-

Classification of financial instruments as per IAS 39 and IAS 27

(amounts in PLN 000s, unless otherwise stated)

Financial assets by balance sheet item	2015 wartość godziwa	2015book value	Classification of financial instruments as per IAS 39 (book value)						(at purchase price)
			Carried at fair value through profit or loss		Carried at fair value with changes in equity		Carried at amortised cost		
			Designated at initial recognition	Held for trading	Available for sale	Hedge accounting	Loans and receivables	Held to maturity	
Financial assets									-
Shares	37	37	-	-	-	-	-	-	37
Loans	1 615	1 615	-	-	-	-	1 615	-	-
Non-current	*1 615*	*1 615*	-	-	-	-	*1 615*	-	-
short-term	-	-	-	-	-	-	-	-	-
Non-current collateral and other receivables	6 313	6 313	-	-	-	-	6 313	-	-
Trade receivables	45 774	45 774	-	-	-	-	45 774	-	-
Receivables not mentioned above, constituting financial assets	12 105	12 105	-	-	-	-	12 105	-	-
Short-term securities	11 138	11 138	-	-	11 138	-	-	-	-
Debt instruments	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	103 795	103 795	-	-	-	-	103 795	-	-
Financial liabilities by balance sheet item	2015 fair value	2015 book value	Classification of financial instruments as per IAS 39 (book value)					Other (book value)	
			Carried at fair value through profit or loss		Carried at amortised cost	Carried at fair value with changes in equity			
			Designated at initial recognition	Held for trading		Hedge accounting			
Financial liabilities									
Credit facilities	-	-	-	-	-	-	-	-	-
Non-current	-	-	-	-	-	-	-	-	-
short-term	-	-	-	-	-	-	-	-	-
Loans	-	-	-	-	-	-	-	-	-
Non-current *short-term*	-	-	-	-	-	-	-	-	-
Finance leasing	2 646	2 646	-	-	2 646	-	-	-	-
Long-term	*1 658*	*1 658*	-	-	*1 658*	-	-	-	-
Short-term	*988*	*988*	-	-	*988*	-	-	-	-
Non-current collateral and other liabilities	3 357	3 357	-	-	3 357	-	-	-	-
Debt instruments	-	-	-	-	-	-	-	-	-
Measurement of other instruments - derivatives	-	-	-	-	-	-	-	-	-
Trade payables	323 128	323 128	-	-	323 128	-	-	-	-
Non-financial liabilities other than those above	28 444	28 444	-	-	28 444	-	-	-	-

(amounts in PLN 000s, unless otherwise stated)

Ageing structure of financial assets that were overdue but not impaired as at the end of the reporting period

- ageing structure of trade receivables overdue but not impaired as at the end of the reporting period

Period	Nominal value Receivables	Receivables not overdue, not	Receivables overdue but not impaired up to 1 month	Receivables overdue but not impaired 1 - 3 months	Receivables overdue but not impaired 3 - 6 months	Receivables overdue but not impaired 6 months - 1 year	Receivables overdue but not impaired over 1 year
2016	51 081	40 260	7 649	1 409	694	867	203
2015	45 774	37 275	5 163	654	566	2 116	-

The remaining financial assets were not overdue as at the end of the reporting period.

Impairment of receivables due to credit losses

	31 Dec 2016	31 Dec 2015
As at the beginning of period	(10 742)	(9 794)
Increases (resulting from acquisitions)	(1 552)	(3 376)
Reversal	1 458	1 358
Derecognised from the statement of profit and loss*	1 771	1 070
As at the end of period	**(9 065)**	**(10 742)**

* Receivables are derecognised where an impairment loss had been previously created and their unrecoverable status has been documented.

Rules concerning recognition and reversal of impairment losses on receivables are presented in note 1.1.1.

(amounts in PLN 000s, unless otherwise stated)

Ageing structure of financial liabilities

Item	Total liabilities	Liabilities due in: Up to 1 year	1 - 3 years	Over 3 years
2016				
Finance leasing	1 722	1 122	600	
Non-current collateral and other liabilities	3 472	-	532	2 939
Trade payables	343 157	343 127	30	-
Financial liabilities other than the above	22 960	22 960	-	-
2015				
Finance leasing	2 646	988	1 658	-
Non-current collateral and other liabilities	3 357	-	487	2 870
Trade payables	323 128	322 700	429	-
Financial liabilities other than the above	28 444	28 444	-	-

Ageing structure of financial liabilities overdue as at the end of the reporting period

- ageing structure of trade payables overdue as at the end of the reporting period

Period	Total Liabilities	Liabilities not overdue	Liabilities Overdue Due in up to 1 month	Liabilities Overdue Due in 1 - 3 months	Liabilities Overdue Due in 3 - 6 months	Liabilities Overdue Due in 6 months - 1 year	Liabilities Overdue Due in over 1 year
2016	343 158	255 067	83 420	3 557	1 032	62	20
2015	323 128	246 230	73 589	2 024	709	148	429

The remaining financial liabilities were not overdue as at the end of the reporting period.

(amounts in PLN 000s, unless otherwise stated)

Profit or loss, by category of instrument

Interest income	01.01.2015 – 31.12.2016	1 January - 31 December 2015
Bank deposits	559	582
Debt instruments	6	-
Loans issued	119	19
Trade receivables	84	169
Total	**768**	**770**

Income on interest that was accrued but unrealised constitutes an immaterial amount.

Interest costs	01.01.2015 – 31.12.2016	1 January - 31 December 2015
Short- and long-term credit facilities	(285)	-
Finance leasing	(207)	(244)
Debt instruments	(38)	-
Trade payables	(105)	(1 187)
Total	**(635)**	**(1 431)**

The costs of interest that was accrued but unrealised constitute an immaterial amount.

(amounts in PLN 000s, unless otherwise stated)

2. Capital risk management

The Group manages its capital so as to ensure its ability to continue as a going concern, taking into consideration planned investments, in order to generate returns for shareholders and provide benefits to other stakeholders, as well as to maintain the optimal capital structure so as to minimise its cost.

In accordance with market practices, the Group monitors its capital based on the equity ratio and credit facilities, loans and other financing sources to EBITDA.

The equity ratio is calculated as net property, plant and equipment (equity less intangible assets) divided by equity and liabilities.

The 'credit facilities, loans and other financing sources to EBITDA' ratio is calculated as credit facilities, loans and other financing sources divided by EBITDA. 'Credit facilities, loans and other financing sources' means the total value of liabilities due to credit facilities, loans and leasing, while EBITDA is defined as operating profit less depreciation.

In order to maintain financial liquidity and creditworthiness enabling to raise external capital at reasonable cost, the Group aims to maintain the equity ratio at no less than 0.5 and the 'credit facilities, loans and other financing sources to EBITDA' ratio at up to 2.0.

	31.12.2016	31.12.2015
Equity	626 268	594 904
Intangible assets	4 118	4 635
Equity, less intangible assets	622 150	590 269
Balance sheet total	1 062 813	1 017 258
Equity ratio	**0.59**	**0.58**

	31.12.2016	31.12.2015
Operating profit	**61 702**	54 093
Depreciation / amortisation	48 935	44 503
EBITDA	110 637	98 596
Credit facilities, loans and other financing sources	1 722	2 646
Ratios: Credit facilities, loans and other financing sources / EBITDA	**0.02**	**0.03**

The Issuer was not subject to capital requirements in 2016 or 2015.

6.3.51 Non-repayment or infringement of credit facility agreements and lack of restructuring activities

Did not occur at the Group.

6.3.52 Discontinued operations

There were no discontinued operations during the reporting period.

6.3.53 Correction of prior-period errors

Did not occur at the Group.
Changes in the presentation of the opening balance is described in note 6.3.28.

6.3.54 Mergers, share purchases or disposals, capital increases

a) Change in Emperia Holding S.A.'s share capital structure

On 14 January 2016, the Issuer introduced to stock-market trading 4 773 ordinary bearer shares series P, with nominal value of PLN 1 each.
Introducing the series P shares to trading was part of Emperia Holding S.A.'s Management Options Programme. The Company announced via current reports the terms and deadlines for registering series P shares by the KDPW, as well as admission and introduction of series P shares to stock-market trading.
From 14 January 2016, the Issuer's share capital amounts to PLN 13 240 268 and is divided into 13 240 268 ordinary bearer shares, with nominal value of PLN 1 each. The total number of voting rights carried by all of the Issuer's outstanding shares is 13 240 268.
The above share capital increase was registered in court on 29 February 2016.

On 31 March 2016, the District Court for Lublin-Wschód in Lublin, based in Świdnik, 6th Commercial Division of the National Court Register, registered a reduction in the share capital of Emperia Holding S.A. The capital reduction resulted from having cancelled 900 219 own shares bought back, which carried rights to 900 219 votes (6.799%) at the General Meeting and represented 6.799% of Emperia Holding S.A.'s share capital. Following the registration of changes, share capital amounted to PLN 12 340 049 and was divided into 12 340 049 ordinary bearer shares, which entitled to 12 340 049 votes at Emperia Holding S.A.'s General Meeting.

On 21 November 2016, the Issuer introduced to stock-market trading 1 978 ordinary bearer shares series P, with nominal value of PLN 1 each.
Introducing the series P shares to trading was part of Emperia Holding S.A.'s Management Options Programme. The Company announced via current reports the terms and deadlines for registering series P shares by the KDPW, as well as admission and introduction of series P shares to stock-market trading.
From 21 November 2016, the Issuer's share capital amounts to PLN 13 324 027 268 and is divided into 13 324 027 268 ordinary bearer shares, with nominal value of PLN 1 each. The total number of voting rights carried by all of the Issuer's outstanding shares is 13 324 027.

b) Merger of subsidiaries

On 14 November 2016, the District Court for the Capital City of Warsaw in Warsaw, 13th Commercial Division of the National Court Register, issued a ruling regarding a cross-border merger of Elpro Development S.A., based in Warsaw (the acquiring company), with EMP Investment Limited, based in Nicosia (the acquired company). The merger was carried out through the transfer of all of the acquired company's assets to the acquiring company.
The cross-border merger of Elpro Development S.A. and EMP Investment Ltd constituted a merger of entities under shared control. This merger was accounted for using book values (historic). The

merging entities were also under control prior to the transaction and the merger did not give rise to changes in net assets or goodwill.
This method based on historic values combines the relevant items of assets, liabilities, revenue and costs of the merging companies and makes appropriate exclusions. Subject to exclusion is the value of the stake held by the Company in EMP Investment, the assets of which were transferred to the Company, as well as equity of the merged company. Also subject to exclusion are mutual receivables and payables as well as other similar settlements.
Comparative data for the previous financial year were restated as if the merger took place on the date control over the merged entity was acquired.

c) Redemption of IPOPEMA 55 FIZAN investment certificates held by Elpro Development S.A.

On 28 November 2016, IPOPEMA 55 FIZAN, at the request of Elpro Development S.A., bought back 311 721 investment certificates held by Elpro Development S.A. The buyback value per investment certificate, according to a FIZ valuation, was PLN 1 185.35, with the total buyback amount being PLN 369 498 487.35.
Moreover, on 30 November 2016, Elpro Development S.A. sold one investment certificate to SPV Administracja Sp. z o.o. for PLN 1 185.35. The investment certificate being the subject of this sale was also the last IPOPEMA 55 FIZAN investment certificate held by Elpro Development S.A.

6.3.55 Emperia Group's significant events in 2016

a) Buy-back programme at Emperia Holding S.A. carried out by subsidiary Elpro Development S.A.

Pursuant to an authorisation under resolutions 3 and 4 of Emperia Holding S.A.'s Extraordinary General Meeting of 11 October 2012, subsidiary Elpro Development S.A. during 2016 purchased, in block transactions, 300 334 shares of Emperia Holding S.A. for cancellation. At the date on which these financial statements were published, Elpro Development S.A. held a total of 367 991 shares in the Issuer, entitling to 367 991 (2.982%) votes at the Issuer's general meeting and constituting 2.982% of the Issuer's share capital.

On 30 March 2016, the Management Board of Emperia Holding S.A. passed a resolution to extend the "Buy-back programme at Emperia Holding carried out by Elpro Development S.A. in Lublin (formerly P1 Sp. z o.o.)" to 30 September 2016 and to increase the amount earmarked for share purchases under the programme to PLN 110 000 000.
On 31 March 2016, 900 291 own shares held by Emperia Holding S.A. were cancelled. Details on this subject are presented in point 6.2.54a.

On 22 December 2016, the Management Board of Emperia Holding S.A. announced that it intends to continue the "Emperia Holding S.A. share buy-back programme by Elpro Development S.A." until 30 June 2017.

b) Extraordinary General Meeting of Emperia Holding S.A.

An Extraordinary General Meeting of Emperia Holding S.A. was held on 5 April 2016. The subject of the EGM was a resolution on amendment of the Company's articles of association as regards change of the Company's registered office. The parent's registered office is located in Warsaw, ul. Puławska 2, building B (the registered office address was changed on 15 April 2016).

c) Selection of entity authorised to audit financial statements for 2016

On 3 June 2016, Emperia Holding S.A.'s Supervisory Board, acting pursuant to art. 14 sec. 2 letter "o" of

the Company's articles of association, passed a resolution selecting UHY ECA Audyt Sp. z o.o. Sp. k., based in Kraków, ul. Moniuszki 50, as auditor for Emperia Holding S.A.'s 2016 separate and consolidated financial statements and review of Emperia Holding S.A.'s semi-annual separate and consolidated financial statements. UHY ECA Audyt Sp. z o.o. Sp. k. is an entity authorised to audit financial statements, no. 3115. The Company retained the above statutory auditor to audit financial statements for 2010-2015.
On 3 January 2017, the Supervisory Board adopted a resolution on the change of statutory auditor for the Company for 2016 and the appointment of a statutory auditor for 2017 (details in note 6.3.56 a).

d) Ordinary General Meeting of Emperia Holding S.A.

An Ordinary General Meeting of Emperia Holding S.A. was held on 30 June 2016. The subject of the meeting was evaluation and approval of the management report on the Company's operations as well as its financial statements, including consolidated financial statements, for the previous financial year; adoption of a resolution concerning profit distribution or loss coverage, approval of Supervisory Board and Management Board members, adoption of resolutions on appointment of Supervisory Board members, adoption of a resolution on Supervisory Board member remuneration, adoption of resolutions on amendment of resolutions regarding consent to purchase Emperia Holding S.A.'s shares by Subsidiaries for cancellation, consent for executing agreements to purchase shares from Subsidiaries and consent for a bond issue, as well as consent for a bond issue.

e) Execution of agreement for market-making services on WSE

On 26 July 2016, the Management Board of Emperia Holding S.A. executed an agreement with Trigon DM S.A. ("Market Maker") pursuant to which the Market Maker commits to serve as market maker for the Issuer on the Warsaw Stock Exchange in respect of the Issuer's shares and rights to shares listed on the WSE in accordance with binding legal regulations and provisions of the WSE's rules.

f) Notice on having exceeded 5% of total votes in Emperia Holding S.A.

On 22 August 2016, the Management Board of Emperia Holding S.A. received notification from MetLife PTE S.A. that a fund under its management, MetLife OFE, had increased its stake in Emperia Holding S.A. voting rights to over 5%. The increase in stake to over 5% took place following a purchase of the Company's shares on 12 August 2016. Directly prior to the change in stake, the fund held 601 073 shares, which constituted 4.87% of the Company's share capital and entitled to 601 073 votes at the Company's General Meeting, i.e. 4.87% of total voting rights.
Currently, the fund holds 632 417 shares, which constitutes 5.12% of the Company's share capital and entitled to 632 417 votes at the Company's General Meeting, i.e. 5.12% of total voting rights.

g) Decision to review strategic options for Emperia Group's further development

On 30 August 2016, the Management Board of Emperia Holding S.A. announced that it had made a decision to review strategic options for Emperia Group's further development. The Group's retail segment is achieving strong organic growth and is organisationally prepared to develop even faster. According to the Management Board, the market currently offers exceptional potential for substantial growth in the retail area through acquisitions.
The review will focus on various strategic options, including in particular: search for an investor for the Issuer or a public share issue, strategic partnership or change in the Group's structure. The review is intended to select the most beneficial means for delivering the Group's long-term growth strategy. The Management Board has not made any decisions yet with regard to selecting any specific strategic option. The Issuer will provide information on progress of the review in accordance with the existing laws.

h) Notice from ALTUS TFI S.A. on having increased its stake in Emperia Holding S.A.'s voting rights by 2%

On 2 November 2016, the Management Board of Emperia Holding S.A. announced that it had received notification from ALTUS TFI S.A. on having increased its stake in Emperia Holding S.A.'s voting rights by 2% from the last notification published by the Company. The increase of stake in the Company's voting rights resulted from the settlement, on 28 October 2016, of a regulated-market transaction to purchase 28 000 shares of the Company. Following the change in stake, investment funds managed by ALTUS TFI S.A. held 1 644 493 shares of the Company, which constituted 13.33% of the Company's share capital and entitled to 1 644 493 votes, which constituted 13.33% of the Company's total votes.

i) Buyback and redemption of series A and B bonds under the Incentive Programme

On 12 November 2015, Emperia Holding S.A.'s Management Board announced that it had received information from Millennium DM S.A. on the buyback of 1 384 series B bonds with pre-emptive rights to series P Shares. The buyback and redemption of the Bonds by the Company from the Authorised Persons was part of the Incentive Programme.
Given the above, the Company had completed settlement of the 2010-2012 Incentive Programme.

j) Dismissal of appeal for annulment of a ruling by the Arbitration Court at the Polish Chamber of Commerce in Warsaw in a case brought by Emperia Holding S.A. against Ernst & Young Audit Sp. z o.o.

On 9 November 2016, the District Court in Warsaw, 20th Commercial Division, rejected the appeal to cancel part of the Arbitration Court's ruling. In a verbal justification, the Court announced that, having analysed the Arbitration Court's ruling, it did not find any infringement or violation of the law.

6.3.56 Emperia Group's significant events after the balance sheet date

a) Change of statutory auditor for 2016 and appointment of statutory auditor for 2017

On 19 January 2017, the Management Board of Emperia Holding S.A. announced that in connection with an on-going process of reviewing strategic options to support further development of Emperia Group's business, the Supervisory Board had adopted a resolution on the change of statutory auditor for the Company for 2016 and the appointment of a statutory auditor for 2017.
In connection with the above, the Supervisory Board on 19 January 2017 adopted a resolution appointing PricewaterhouseCoopers Sp. z o.o., based in Warsaw, Al. Armii Ludowej 14, to audit the separate and consolidated financial statements of Emperia Holding S.A. for 2016 as well as review and audit the Company's separate and consolidated financial statements for 2017. PricewaterhouseCoopers Sp. z o.o. is an entity authorised to audit financial statements, entered onto the list of entities authorised to audit financial statements by the National Chamber of Statutory Auditors under number 144. The Company did not previously use the services of this statutory auditor as regards audit and review of financial statements.
The Supervisory Board also approved amicable termination of an agreement of 8 June 2016 concerning review and audit of the Company's separate and consolidated financial statements for 2016 with UHY ECA Audyt Sp. z o.o. Sp.k.,
based in Kraków, ul. Moniuszki 50, entered onto the list of entities authorised to audit financial statements by the National Chamber of Statutory Auditors under number 3115.

b) Receipt of decision under inspection proceedings led by head of Tax Control Office in Lublin

On 31 January 2017, Emperia Holding S.A. received from a law firm representing it in the case a decision by the Head of the Tax Control Office in Lublin issued in an inspection proceeding concerning the accuracy of declared tax basis and the correctness of CIT calculations and payments for 2011.

In the Decision, the Head of the Tax Control Office in Warsaw established the Company's tax liability regarding corporate income tax for 2011 at PLN 142 463 805. Under art. 53 and 55 of the Tax Ordinance, the Company is also obligated to calculate and pay late interest on the liability, which at the date on which this decision was received amounted to PLN 52 372 037.

Factual status:

- As a result of an arrangement of 21 December 2011, P1 sp. z o.o. (subsidiary of Emperia Holding S.A.) sold its distribution segment to Eurocash S.A. for approx. PLN 1.1bn. After the above transaction, P1 on the one hand ceased to perform its holding-company functions (in relation to the distribution companies segment) while on the other hand it held substantial cash, which had to be immediately and rationally used by Emperia Group.
- On 29 December 2011, an Extraordinary General Meeting of P1 (i.e. the sole shareholder - Emperia Holding S.A.), in line with the company's founding agreement, carried out a mandatory cancellation of 13 200 000 shares of P1 in exchange for a consideration of PLN 1.090bn. The reduction in P1's share capital was registered through a decision of the District Court in Lublin Wschód, 6th Commercial Division of the National Court Register, on 27 April 2012.
- According to the Act on Corporate Income Tax, the consideration received by Emperia Holding S.A. from the mandatory share cancellation is exempt from tax.

Charges made by the Tax Control Office:

- According to the Head of the Tax Control Office in Lublin, the mandatory cancellation of shares of P1 was illusive
  and the legal activity performed on 29 December 2011 was actually a voluntary share cancellation. This is supposed to be proven by, among other things, the fact that P1 was controlled, in capital and personal terms, by Emperia Holding, and by the fact that reasons for the mandatory cancellation were introduced in P1's founding agreement only when the distribution segment was transferred to it. The Tax Control Office considered that Emperia Holding de facto had agreed to the share cancellation, making it easier to quality this activity as a voluntary cancellation;
- The Tax Control Office considered that "the parties' intent was to form relations between Emperia Holding S.A. and P1 in a way that, while maintaining legal compliance, they would aim to reach an objective that would be against tax law." The Tax Control Office made a reference to the tax equality and universality rules and to the autonomy of tax law;
- In consequence, according to the Tax Control Office, the consideration for the alleged transaction consisting of a voluntary cancellation of P1 shares, constituted tax income for Emperia Holding in 2011 (tax arrears of approx. PLN 142.5m).

Company's position:

- The decision by the Tax Control Office is in clear violation of tax law but also civil and corporate law. The Tax Control Office incorrectly equates the illusiveness of legal activities with formulating the transaction in a manner that does not bring the expected tax proceedings;
- The Extraordinary General Meeting resolution on the mandatory share cancellation may not be considered to be illusive because illusiveness does not apply to one-sided legal activities that are not addressed to anyone in particular;
- There is no legal basis whatsoever for concluding that this matter involves a voluntary cancellation of P1's shares. This form of cancellation requires a share purchase agreement to be executed between the shareholder and the company in order for the company to cancel the shares. No such agreement was executed - which precludes concluding that this was a voluntary cancellation of P1's shares;
- The mandatory cancellation was carried out in compliance with the law and the company's founding agreement, which is confirmed by the register court's decision.

Therefore, the Tax Control Office's decision is in contravention to a binding court ruling;

- Despite the fact that the dispute de facto revolves around there being a legal relation (the acquisition by P1 of its own shares for cancellation), the Tax Control Office refused to file a suit in a general court to determine that such an activity had been performed - citing a "lack of objective doubt." The above proves that the Tax Control Office does not have evidence allowing this to be determined by an independent court and, in violation of tax proceeding rules, is making standalone rulings in the area of private law.
- In reference to the principle of equity, the Tax Control Office seems to be assuming that in the circumstances of the matter the sole economically justified transaction was a voluntary share cancellation. The business objective of the share cancellation was the transfer of financial resources from P1 to the Group. According to the law, the above objective could have alternatively been achieved through other legal activities that are exempt from tax based on European Union law. The economic sense of the share cancellation should be compared to generating income from equity (as in the case of company liquidation or dividend payment) rather than income from a transaction (from the sale of property rights).
- The circumstances of the matter and the accusations made by the Tax Control Office had been analysed by renowned representatives of academia, tax law and corporate law, who have considered that the position of the Tax Control Office is completely unjustified and in violation of the law.

The Company does not agree with these findings and the legal assessment carried out by the Head of the Tax Control Office in the Decision, further it does not see grounds for recognising a provision for the amounts of tax arrears indicated in the Decision.

The Decision, issued by a first instance body, is not final and enforceable. On 10 February 2017, Emperia appealed the decision to the Head of the Tax Chamber in Warsaw.

The Management Board does not expect this tax issue to negatively impact Emperia Group's development plans.

On 10 February 2017, Emperia appealed the decision to the Head of the Tax Chamber in Warsaw.

c) Completion of a buy-back programme at Emperia Holding S.A. by subsidiary Elpro Development S.A.

Pursuant to an authorisation under resolutions 3 and 4 of Emperia Holding S.A.'s Extraordinary General Meeting of 11 October 2012, subsidiary Elpro Development S.A. purchased after the end of the reporting period, in block transactions, 45 050 shares of Emperia Holding S.A. for cancellation. At the date on which these financial statements were published, Elpro Development S.A. held a total of 413 041 shares in the Issuer, entitling to 413 041 (3.347%) votes at the Issuer's general meeting and constituting 3.347% of the Issuer's share capital.

d) Merger of Emperia Group companies

On 28 February 2017, the Extraordinary General Meeting of Elpro Development S.A. adopted a resolution on the merger of the Company and the following Acquired Companies: Elpro Ekon Sp. z o.o. S.K.A., P3 Ekon Sp. z o.o. S.K.A., P5 Ekon Sp. z o.o. S.K.A. and Ekon Sp. z o.o.. Due to the fact that the Company and the Acquired Companies belong to the same group and that the consolidation of these companies will have positive impact on their financial situation and will improve management efficiency whilst reducing management expenses, the Extraordinary General Meeting decided to merge the Company with the Acquired Companies pursuant to art. 492 par. 1 point 1 of the Polish Commercial Companies Code, i.e. by transfer of all assets of the Acquired Companies to the Company - merger by acquisition.
The Companies' merger took place on 3 April 2017.

e) Receipt of credit promise

On 28 February 2017, Emperia Holding S.A. received a credit promise from mBank S.A., Bank Pekao S.A., PKO Bank Polski S.A. and Bank BGŻ BNP Paribas S.A. concerning financing for Emperia Group entities. The lenders undertook to provide term credit facilities for a total amount of PLN 160 million (broken down as follows: ELPRO Development S.A. PLN 150 million, Stokrotka sp. z o.o. PLN 10 million) to be used to make a loan to Emperia Holding S.A. for purposes as defined in the loan agreement, to finance the payment of a tax liability with interest resulting from a decision issued by the relevant tax authority. The final repayment deadline for these credit facility is 66 months from the date on which the Financing Documents are signed, no later however than 30 September 2022. The credit will be activated by the end of April 2017.

Warsaw, 25 April 2017

Signatures of all Management Board members:

Dariusz Kalinowski	President of the Management Board	.... Signature
Cezary Baran	Vice-President of the Management Board, Finance Director	.... Signature

Signatures of persons responsible for book-keeping

Elżbieta Świniarska	Economic Director	.... Signature