

Annual report on Emperia Group's operations for 2016



Emperia Group means:



- *credibility and prioritising shareholder interests*
- *customer-centric culture*
- *growth and openness*
- *working together*
- *effectiveness*
- *reliability and engagement*

Credibility and prioritising shareholder interests

- Emperia, **winner of multiple awards** and **leading Polish retailer**, has been an active player on Poland's retail market for the past 25 years
- Our **aim** is to **create value** for shareholders
- Emperia is **financially stable** and has been listed on the **Warsaw Stock Exchange** for 15 years
- **Credibility** in the eyes of our shareholders is our **top priority**
- Emperia operates **transparently and openly**, while emphasising **corporate governance** and **ethics in business**

Customer-centric culture



- **Our top priority** in everyday work is building positive and lasting **relations with clients**
- We are fully aware of the fact that **customer satisfaction** ultimately has decisive meaning for our success

Growth and openness



- We value people who want to **develop** while sharing **knowledge** across the organisation
- We appreciate the **achievements** of our external environment, and the **experience** of others is always an opportunity for us to learn something new
- In our work, we use **modern technologies** because we know that with them we can grow in the long-term

Working together



- We know that only **together** can we **achieve** our **goals**
- We prioritise **work atmosphere**, team relations and **high standards** in managing people
- We build long-term commercial **partnerships**, guided by the principles of **reliability and integrity**
- In relations with our business partners, we place emphasis on **transparency** and observance of **business ethics** principles

Reliability and engagement



- We are ***honest*** with our employees, business partners and clients
- We are ***socially involved***. We run an employee-based Foundation and get involved in employee volunteer activities
- ***Loyalty and engagement*** are the prerequisites of each and every member of our team

Effectiveness



- Progress towards our targets is the most important indicator of our ***effectiveness***
- We value ***courage in acting*** and decision-making We accept the risk of wrong decisions but not failure to act
- We aim for ***high effectiveness*** at low cost
- We like simple structures and solutions, believing that they can help us in ***acting quickly and effectively***
- A high-calibre management team

Welcome!

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CEO Letter



Dear Shareholders,

We finished another year together. This was the 15th anniversary year of Emperia Holding S.A.'s listing on the Warsaw Stock Exchange. Just as in all the previous years, our main objective continues to be work on growing our Group's market value. I am certain that the past 12 months substantially contributed toward achieving this goal.

Perspectives for the FMCG retail market remain good. Improving conditions, inflow of new capital to the market from the government's family support programme and higher wages in real terms undoubtedly contributed to very good sales results. However, this double-digit sales growth is not just due to our clients' deep pockets. We are working hard at improving Stokrotka's market position.

Our interesting assortment proposition is a response to the strong competition from large multinational players. We carefully select products for our stores, which is appreciated by our clients as seen in very high grades for quality, particularly meat, cold cuts and other fresh products. Customer services and convenient locations are what makes us stand out and what is becoming increasingly important at a time when everyone is constantly busy. All this, combined with a new pricing policy introduced last year and interesting incentive programmes, had positive impact on the sales and profit figures posted in 2016.

Operational scale is particularly important in our industry. It is where our ability to achieve ever better commercial terms and recognisability amongst clients comes from, by having stores in your closest neighbourhood. This is why we are not slowing down our organic growth. Last year, we expanded our store portfolio, in line with our strategy, by adding supermarket- and market-format stores. Focusing on these two developing and successfully competing format lets us use our custom logistics system to a greater degree.

Our property and IT segments provide significant support to our core business. The Group's attractive property portfolio generates steady margins on these assets and partially secures sites for our own stores. Thanks to Infinite's developing product and service portfolio, we are using the best and most tailored solutions for the Stokrotka supermarket chain.

Our attempts to improve our business are yielding results. But many challenges are still ahead of us. To meet them, we must seek out the best possible paths towards the Group's strategic goals. Making this a priority, at the end of August 2016, working with advisors, we launched a strategic options review. Our goal is to build foundations for even more dynamic growth in retail. We want to actively participate in market consolidation and achieve long-term objectives related to growing our business's value.

Securing the Group's current position would not have been possible without the efforts and creativity of our employees, successful cooperation with our Supervisory Board and the trust of our Clients and Shareholders, for all of which I wholeheartedly thank you.

I am certain that we finished a successful year for the Group. The financial data presented in this report is the best proof of this. Enjoy the read.

Dariusz Kalinowski
CEO, Emperia Holding S.A.

1. Analysis of key financial data

1.1 Changes in key items from the statement of profit and loss

| Item | 2016 | 2015 | % |
|--------------------------|-----------|-----------|-------|
| Revenue from sales | 2 450 750 | 2 078 010 | 17.9% |
| Profit on sales | 678 895 | 594 957 | 14.1% |
| EBITDA | 110 637 | 98 596 | 12.2% |
| Operating profit (loss) | 61 702 | 54 093 | 14.1% |
| Profit (loss) before tax | 61 232 | 53 511 | 14.4% |
| Profit for the period | 50 551 | 48 356 | 4.5% |

In 2016, Emperia Group generated results in line with management expectations and achieved its planned growth. The dynamically developing retail segment deserves particular attention, with 53 new Stokrotka stores opened (35 own stores and 18 franchise).

Revenue in 2016 went up by 17.9% from the same period last year, to PLN 2 450 750 000. Revenue growth in 2016 largely resulted from stronger sales in the retail segment.
Net profit in 2016 was PLN 50 551 000, up by 4.5% y/y.

One-off events having substantial impact on FY 2016 and FY 2015 results:

- gross result on property disposals of PLN 13 546 000 was recognised in 2016 (net result: PLN 11 270 000), compared to PLN 8 189 000 in 2015 (net result: PLN 8 106 000),
- in 2016, the retail segment incurred one-off costs connected with store closures of PLN 968 000, versus PLN 1 429 000 in 2015,
- in 2016, no costs connected with contractual penalties and compensation were incurred, while in 2015 these costs amounted to PLN 3 519 000,
- in 2016, the retail segment incurred one-off costs connected with new store openings of PLN 3 393 000, versus PLN 6 032 000 in 2015.

1.2 Balance sheet dynamics

| Assets | 31 Dec 2016 | | 31 Dec 2015 | | 2016/2015 |
|--|------------------|---------------|------------------|---------------|---------------|
| Non-current assets | 609 180 | 57.3% | 624 116 | 61.4% | -2.4% |
| Property, plant and equipment | 386 866 | 36.4% | 395 840 | 38.9% | -2.3% |
| Investment properties | 123 441 | 11.6% | 127 116 | 12.5% | -2.9% |
| Intangible assets | 4 118 | 0.4% | 4 635 | 0.5% | -11.2% |
| Goodwill | 52 044 | 4.9% | 52 044 | 5.1% | 0.0% |
| Financial assets | 37 | 0.0% | 37 | 0.0% | 0.0% |
| Non-current loans | 263 | 0.0% | 1 615 | 0.2% | -83.7% |
| Non-current receivables | 5 532 | 0.5% | 6 313 | 0.6% | -12.4% |
| Deferred income tax assets | 18 053 | 1.7% | 22 009 | 2.2% | -18.0% |
| Other non-current prepayments | 18 826 | 1.8% | 14 507 | 1.4% | 29.8% |
| Current assets | 453 633 | 42.7% | 393 142 | 38.6% | 15.4% |
| Inventories | 217 962 | 20.5% | 199 035 | 19.6% | 9.5% |
| Receivables | 80 733 | 7.6% | 71 248 | 7.0% | 13.3% |
| Income tax receivables | 656 | 0.1% | 1 332 | 0.1% | -50.8% |
| Short-term securities | - | - | 11 138 | 1.1% | - |
| Prepayments | 6 087 | 0.6% | 4 730 | 0.5% | 28.7% |
| Cash and cash equivalents | 146 432 | 13.8% | 103 795 | 10.2% | 41.1% |
| Other financial assets | 1 763 | 0.2% | 1 864 | 0.2% | -5.4% |
| Current assets classified as held-for-sale | - | - | - | - | - |
| Total assets | 1 062 813 | 100% | 1 017 258 | 100.0% | 4.5% |
| Equity | 626 268 | 58.9% | 594 904 | 58.5% | 5.3% |
| Share capital | 12 342 | 1.2% | 13 235 | 1.3% | -6.7% |
| Share premium | 419 964 | 39.5% | 471 424 | 46.3% | -10.9% |
| Supplementary capital | 99 905 | 9.4% | 99 905 | 9.8% | 0.0% |
| Management options provision | - | - | 241 | 0.0% | - |
| Reserve capital | 72 766 | 6.8% | 47 661 | 4.7% | 52.7% |
| Own shares | (23 320) | (2.2%) | (57 487) | (5.7%) | -59.4% |
| Retained earnings | 44 611 | 4.2% | 19 925 | 2.0% | 123.9% |
| Total equity attributable to owners of the parent | 626 268 | 58.9% | 594 904 | 58.5% | 5.3% |
| Total non-current liabilities | 20 034 | 1.9% | 24 112 | 2.4% | -16.9% |
| Credit facilities, loans and debt instruments | 600 | 0.1% | 1 658 | 0.2% | -63.8% |
| Non-current liabilities | 3 472 | 0.3% | 3 357 | 0.3% | 3.4% |
| Provisions | 10 474 | 1.0% | 14 600 | 1.4% | -28.3% |
| Deferred income tax provision | 5 488 | 0.5% | 4 497 | 0.4% | 22.0% |
| Total current liabilities | 416 511 | 39.2% | 398 242 | 39.1% | 4.6% |
| Credit facilities, loans and debt instruments | 1 122 | 0.1% | 988 | 0.1% | 13.6% |
| Current liabilities | 388 725 | 36.6% | 369 419 | 36.3% | 5.2% |
| Income tax liabilities | 613 | 0.1% | 426 | 0.0% | 43.9% |
| Provisions | 18 734 | 1.8% | 18 626 | 1.8% | 0.6% |
| Deferred revenue | 7 317 | 0.7% | 8 783 | 0.9% | -16.7% |
| Total equity and liabilities | 1 062 813 | 100.0% | 1 017 258 | 100.0% | 4.5% |

1.3 Operational performance and ability to meet liabilities

| Item | 2016 | 2015 |
|----------------------------|--------|--------|
| Return on invested capital | 8.07% | 8.13% |
| Return on assets | 4.76% | 4.75% |
| Sales margin | 27.70% | 28.63% |
| EBITDA margin | 4.51% | 4.74% |
| Operating margin | 2.52% | 2.60% |
| Gross margin | 2.50% | 2.58% |
| Net margin | 2.06% | 2.33% |

1.4 Turnover cycles for key components of working capital

| | 2016 | 2015 |
|--------------------------------|------|------|
| Inventory turnover days | 45.6 | 49.8 |
| Receivables turnover days | 12.0 | 12.5 |
| Payables turnover days | 87.0 | 99.4 |
| Asset productivity | 2.3 | 2.0 |
| Non-current asset productivity | 4.0 | 3.3 |

In 2016, inventory turnover ratio decreased by 3.7 days, receivables turnover by 0.4 days, and payables turnover by 11.3 days. In effect, cash conversion cycle was shortened by 7.2 days. A substantial growth in revenue from sale in 2016 translated into growth in productivity ratios: total assets by 0.2, non-current assets by 0.6.

2. Description of Emperia Group

2.1 Group structure

The Parent, 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. Emperia Group focuses on four operating segments, as described in point 3.

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% |

- (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)

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) took place on 14 November 2016.

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., with the last investment certificate being sold by Elpro Development on 30 November 2016. As of 31 December, Elpro Development S.A. held no investment certificates of IPOPEMA 55 FIZAN.

| 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 | | | | |

2.2 Information on key products, goods and services provided by Group companies

Retail operations are the Group's core business. The Group conducts its retail activities through the Stokrotka chain, which consists of the following store formats: supermarkets, markets and franchise stores. At the end of 2015, Stokrotka comprised 372 own retail locations.

Its retail premises are located throughout Poland - in housing developments, city centres, along pedestrian routes, in mini markets and shopping centres. Supermarkets range from 300 to 2 000 sqm and offer 4 000 - 10 000 assortment items, including a wide offering of fresh products: meats and cold cuts, fruit and vegetables, bread and dairy products, chemical products and household cleaning products, and a wide offering of alcoholic beverages and wines. The supermarkets also feature local products from regional suppliers and quickly-expanding in-house brands.

From 2013, Stokrotka's franchise business has been systematically expanding. At the end of 2015, Stokrotka's franchise chain comprised 45 retail locations.

The Stokrotka franchise package is an offering dedicated to franchisees and covers: a nationwide logistics network, fixed schedule for store deliveries, consistent and proven assortment policy, flexibility in developing regional assortment, wide own-brand product offering, marketing support for each store, nationwide and regional marketing activities aimed at building a consistent image for the Stokrotka brand, continuous support from client reps for each franchise location and assistance in on-going store management through proven operational solutions, help in preparing and carrying out the store opening, access to constantly improved standards in store fittings, marketing elements, competitive market analysis, customer service standards, proven and functional IT solutions dedicated to franchise locations together with service available, training back-office for personnel and franchisees.

The Group also manages a portfolio of properties and development projects intended for its own retail purposes as well as for rent. In 2015, property management and investment activities were organised in a group of general partnerships, a foreign company and an investment fund.

The Group's property portfolio comprises 86 properties located all over Poland and includes retail facilities, land and warehouses. The properties are attractively located, highly visible, with a large catchment area; many have potential to be further developed. A well-diversified tenant portfolio is based on renowned brands such as: Stokrotka, Biedronka, Rossmann, Pepco, NG2, Drogerie Natura, Media Expert, Textil Market and many others. The largest tenant is subsidiary Stokrotka. The entire portfolio is 94% leased. The weighted average term of lease is more than nine years, which enables long-term income and potential for active management and value creation.

The Group's operating activities are supposed by the IT company Infinite Sp. z o.o., which provides fully functional and economically justified IT systems for all Emperia Group companies, as well as provides services outside the Group.

Infinite's flagship systems and services

- Infinite EDI solutions for electronic document exchange between business partners all over the world, without time-consuming and error-prone paper-based transactions.
- Proprietary EPR (Enterprise Resource Planning) systems offered by Infinite facilitate management of key processes at both small and large businesses in retail and FMCG sectors.
- Infinite SFA is a solution supporting the handling of processes and tasks by mobile employees.
- The Infinite BI system, which belongs to the Business Intelligence software group, transforms data into business information.
- Infinite ECM is a group of solutions intended for management of documents coming in and out of the organisation.
- Infinite RCP allows companies to more effectively plan and record work time in accordance with the existing Labour Code regulations.
- Comprehensive package of IT services for business, covering: service and purchase of computer, network and accounting equipment from renowned manufacturers.

2.3 Sales markets

The retail segment's main customers are natural persons - customers of Stokrotka supermarkets and markets. Moreover, the segment's clients are legal entities operating Stokrotka franchise stores. Retail sales are either cash or card transactions. Within the franchise business, sales are based on trade credit.

The main client of property-segment services is the retail chain Stokrotka. Property-segment services provided to the retail segment constituted 68.3% of that segment's total revenue in 2016.

Properties that the retail segment is not interested in are leased out to external customers. Also leased externally are parts of retail areas in shopping centres. The revenue generated from each of the large customers does not exceed 10% of the segment's overall revenue.

The IT segment's customers are Group companies and external clients. The main customers for IT services are Group companies, for which the IT segment provides IT services, maintenance and repair as well as data transmission and archiving. Services provided to Group companies constituted 35.6% of the segment's 2016 revenue. Infinite Sp. z o.o.'s largest customer in 2016 was a Group company - Stokrotka Sp. z o.o. - whose share in the segment's overall revenue reached 32.2%. The remaining customers include FMCG production and retail companies, home and garden product providers and others. The revenue generated from each of the large customers does not exceed 10% of the segment's overall revenue. In 2016, 11.5% of sales revenue was generated abroad.

2.4 Significant agreements

Lease agreements concerning the properties that the Group uses for retail operations

The main supplier of properties to the retail segment is companies from the property segment. In addition, retail companies lease premises from external entities: developers, cooperatives and natural persons. All lease agreements are long-term, with long notice periods. Rent and fees arising from those agreements were calculated on market terms.

Commercial agreements with product suppliers

The retail segment's suppliers are some of the largest FMCG distributors in Poland and branches of global companies. The segment also works with numerous local suppliers of fresh products: breads, meats and hams, fruits and vegetables. An insignificant portion of the segment's supplies comes from indirect import. None of the segment's suppliers exceeded

10% of the overall procurement. None of the agreements separately are significant from an operational perspective, however they do constitute a significant item in aggregate.

The Group has framework cooperation agreements with all of its main suppliers and product manufacturers. Commercial agreements with suppliers/customers establish a framework for cooperation in terms of distribution and promotion of the products offered by the respective producer or supplier. The agreements detail the procedures for ordering, deliveries, returns and payments. Furthermore, the agreements specify the rules for issuing and securing trade credit, price discounts and rebates, distribution regions, order volumes, product storage conditions and supplier commercial policies.

Agreements with the Group's banks; credit agreements

As regards banking services and lending, the Group works with the following banks: PKO BP S.A., PEKAO S.A., BRE BANK S.A., UNICREDIT BANK S.A., PIRAEUS BANK, MBANK S.A., CITI BANK HANDLOWY S.A., ING BANK ŚLĄSKI S.A.

These banks provide finance in the form of working capital and maintain the Group's bank accounts and invest cash surpluses. In 2016, the Group did not use investment credit.

Insurance contracts

As regards insurance, Group companies maintain a unified policy. All companies apply standardised terms for property, incident, accident (transport), theft and robbery insurance. The Group also holds civil liability insurance. As far as property and civil liability insurance goes, an agreement was executed with Ergo Hestia S.A. and TUIR WARTA S.A. (until 1 December 2017), and Liberty Seguros Compania de Seguros y Reaseguros S.A., branch in Poland (until 1 October 2017) as regards motor insurance.

2.5 Changes in the main management principles

There were no changes in the main management principles at the Group in 2016.

2.6 Issuer's shares held by Management Board and Supervisory Board members

| Management Board members | Shares held, as at 31 Dec 2016 | % in share capital | % change | Shares at 31 December 2015 | % in share capital as at 31 Dec 2015 |
|--------------------------|--------------------------------------|-----------------------|----------|-------------------------------|---|
| Dariusz Kalinowski | 26 094 | 0.211% | - | 26 094 | 0.197% |
| Cezary Baran | 600 | 0.005% | - | 600 | 0.005% |

| Supervisory Board members | Shares held, as at 31 Dec 2016 | % in share capital | % change | Shares at 31 December 2015 | % in share capital as at 31 Dec 2015 |
|---------------------------|--------------------------------------|-----------------------|----------|-------------------------------|---|
| Jarosław Wawerski | 19 494 | 0.158% | - | 19 494 | 0.147% |

According to the Issuer, none of the Management Board and Supervisory Board members held any shares in related parties.

2.7 Shareholders with at least 5% of votes at the Company's general meeting

Shareholders with at least 5% of voting rights at the general meeting as at 31 December 2016

| Shareholders | Shares held, as at 31 Dec 2016 | % in share capital | % change | Shares held, as at 31 December 2015 | % in share capital as at 31 Dec 2015 | GM votes at 31 December 2016 | % of votes at general meeting at 31 Dec 2016 |
|--------------|--------------------------------------|-----------------------|----------|--|--|---------------------------------------|--|
| Ipopema TFI | 1 458 583 | 11.82% | - | 1 458 583 | 11.02% | 1 458 583 | 12.12% |
| Altus TFI | 1 644 493 | 13.32% | 13.45% | 1 449 528 | 10.95% | 1 644 493 | 13.73% |
| AXA OFE | 977 481 | 7.92% | - | 977 481 | 7.38% | 977 481 | 8.16% |
| Aviva OFE | 834 991 | 6.77% | - | 834 991 | 6.31% | 834 991 | 6.97% |
| NN OFE | 755 713 | 6.12% | - | 755 713 | 5.71% | 755 713 | 6.31% |
| MetLife OFE | 632 417 | 5.12% | - | - | - | 632 417 | 5.28% |

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 voting rights at the Issuer's General Meeting.

Information on share issues and share redemptions in 2016 is presented in Emperia Group's consolidated financial statements for 2016 (point 6.3.54).

2.8 Changes in composition of 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

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

Artur Laskowski – Member

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

Aleksander Widera – Member

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

Michał Kowalczewski – Independent Member

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

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.

3. Emperia Group's operating segments

3.1 Retail segment



The retail segment covers 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.).

| | 2016 | 2015 | % |
|---------------------------|--------------|--------------|---------------|
| Segment revenue | 2 404 435 | 2 030 573 | 18.41% |
| Profit on sales | 661 414 | 576 687 | 14.69% |
| EBITDA | 51 000 | 42 180 | 20.91% |
| Operating result | 13 785 | 9 361 | 47.26% |
| Gross profit | 11 295 | 6 241 | 80.98% |
| Net segment result | 8 394 | 7 085 | 18.48% |

Retail-segment revenue in 2016 was PLN 2 404 435 000, up 18.41% from 2015. The revenue growth resulted largely from having a larger number of retail sites launched in 2016 (53 new stores - 35 own stores and 18 franchise - opened in 2016, compared to 80 in 2015: 53 own stores and 27 franchise), as well as revenue growth in previously opened stores.

The segment's net profit in 2016 was PLN 8 394 000, up 18.48% from the previous year.

One-off events having substantial impact on the segment's FY 2016 and FY 2015 results:

- in 2016, the retail segment incurred one-off costs connected with store closures of PLN 968 000, versus PLN 1 429 000 in 2015,
- in 2016, no costs connected with contractual penalties and compensation were incurred, while in 2015 these costs amounted to PLN 3 519 000,
- in 2016, the retail segment incurred one-off costs connected with new store openings of PLN 3 393 000, versus PLN 6 032 000 in 2015,

Stokrotka retail chain

| | 2016 | 2015 |
|--|------------|------------|
| Number of stores at the beginning of period | 327 | 252 |
| - stores opened | 53 | 80 |
| - stores shut-down | 8 | 5 |
| Number of stores at the end of period, including: | 372 | 327 |
| - own supermarkets | 250 | 241 |
| - own markets | 77 | 56 |
| - franchise stores | 45 | 30 |
| Average total store surface - stores opened (in sqm) | 465 | 476 |
| Capex on own stores opened | 28 063 | 36 507 |

In 2016, the segment continued to dynamically grow its retail chain. As at the end of 2016, the Stokrotka retail chain comprised 372 retail stores, vs. 327 at the end of 2015.

In 2016, a total of 53 stores were opened (including 18 franchise locations), and 8 were shut down. In 2015, 80 stores were opened (including 27 franchise locations), and 5 were shut down.

Stokrotka store results (on a like-for-like basis)

| | 2016 | 2015 |
|--|--------------|--------------|
| Revenue from product sales | 1 882.4 | 1 799.0 |
| Store operating costs | 418.0 | 413.3 |
| <i>Operating costs as % of revenue</i> | <i>22.2%</i> | <i>23.0%</i> |
| EBITDA | 119.1 | 117.5 |
| <i>% EBITDA</i> | <i>6.3%</i> | <i>6.5%</i> |

Data - 240 Stokrotka stores operating at the end of 2014

| | 2016 | 2015 |
|--|-------------|-------------|
| <i>central management costs as % of revenue from sales</i> | <i>2.0%</i> | <i>2.2%</i> |
| <i>marketing costs as % of revenue from sales</i> | <i>1.1%</i> | <i>1.0%</i> |

Cash conversion cycle in the retail segment

| | 2016 | 2015 |
|--|-------|-------|
| Inventory turnover days <i>(inventory / value of goods for resale and materials sold*365)</i> | 45.5 | 49.4 |
| Receivables turnover days <i>(trade receivables / revenue from sales*365)</i> | 6.7 | 6.7 |
| Payables turnover days <i>(trade payables / value of goods for resale and materials sold*365)</i> | 71.7 | 80.0 |
| Cash conversion cycle <i>(difference between inventory turnover cycle and receivables collection cycle vs. payables turnover cycle)</i> | -19.5 | -23.9 |

The cash conversion cycle in the retail segment decreased by 4.4 days in 2016, resulting from a decrease in payables turnover by 8.3 days and decrease in inventory turnover by 3.9 days.

3.2 Property segment



The property segment covers Emperia Group's property assets, including the following companies: Elpro Development S.A., 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., and the property segment carved out of Emperia Holding S.A.

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) took place on 14 November 2016. 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., with the last investment certificate being sold by Elpro Development on 30 November 2016. As of 31 December, Elpro Development S.A. held no investment certificates of IPOPEMA 55 FIZAN.

| | 2016 | 2015 | % |
|---------------------------|---------------|---------------|--------------|
| Segment revenue | 69 704 | 70 920 | -1.71% |
| EBITDA | 53 734 | 49 765 | 7.98% |
| Operating result | 42 006 | 37 918 | 10.78% |
| Gross profit | 43 551 | 39 784 | 9.47% |
| Net segment result | 36 936 | 35 506 | 4.03% |

The property segment generated PLN 69 704 000 in revenue from sales in 2016, up 1.71% from the preceding year. The segment's net profit in 2015 came to PLN 36 936 000, up 4.03% from the comparative period.

One-off events having material impact on the segment's results in both of the reporting periods included the disposal of three properties in 2016 and three properties in 2015. gross result on property disposals of PLN 13 546 000 was recognised in 2016 (net result: PLN 11 270 000), compared to PLN 8 189 000 in 2015 (net result: PLN 8 106 000),

Key information about properties

| | 2016 | 2015 |
|---|---------------|---------------|
| Number of properties at the end of period | 86 | 91 |
| including: properties in progress | 5 | 5 |
| operating properties | 81 | 86 |
| including: retail properties | 76 | 80 |
| other properties | 5 | 6 |
| average monthly net operating income from leasable facilities* | 3 565 | 3 544 |
| including: retail properties | 3 250 | 3 236 |
| leasable area of retail facilities (sqm) | 85 602 | 87 030 |
| including: related tenants | 54 826 | 54 293 |
| other tenants | 30 776 | 32 736 |
| average lease rate (PLN per sqm) | 42.4 | 41.9 |
| including: related tenants | 43.8 | 43.4 |
| other tenants | 39.9 | 39.4 |

* NOI (net operating income) for a property is defined as the difference between its average monthly operating revenue and average monthly operating costs, less depreciation

3.3 IT segment



The IT segment covers the activities of Infinite Sp. z o.o. - an IT services provider.

| | 2016 | 2015 | % |
|---------------------------|--------------|--------------|---------------|
| Segment revenue | 37 648 | 38 111 | -1.21% |
| EBITDA | 9 017 | 8 977 | 0.45% |
| Operating result | 7 746 | 7 996 | -3.13% |
| Gross profit | 7 969 | 8 317 | -4.18% |
| Net segment result | 6 393 | 6 676 | -4.24% |

| | 2016 | 2015 | % |
|--|--------|--------|---------|
| Revenue from sale of services | 32 261 | 28 181 | 14.48% |
| <i>including: external</i> | 23 277 | 19 869 | 17.15% |
| Revenue from sale of goods and materials | 5 387 | 9 930 | -45.75% |
| <i>including: external</i> | 964 | 4 955 | -80.54% |
| Total revenue | 37 648 | 38 111 | -1.21% |
| <i>including: external</i> | 24 241 | 24 824 | -2.35% |

IT-segment revenue from sales in FY 2016 went down by 1.21% from the same period last year, to PLN 37 648 000. The segment's net profit in FY 2016 was PLN 6 393 000, down 4.24% from the previous year.

In 2016, external revenue constituted 64.39% of total segment revenue, while in 2015 it accounted for 65.13%. In 2016, segment revenue from sale of services to external customers constituted 72.15% of total service revenue, while in 2015 it accounted for 70.50%.

3.4 Central management segment

The central management segment covers management functions, holding services and advisory within the Group. The segment comprises the following companies: Emperia Holding S.A., Eldorado Sp. z o.o.;

| | 2016 | 2015 | % |
|---------------------------|--------------|--------------|----------------|
| Segment revenue | 995 | 1 538 | -35.31% |
| EBITDA | (3 050) | (1 771) | - |
| Operating result | (3 429) | (2 297) | - |
| Gross profit | 2 997 | 9 531 | -68.56% |
| Net segment result | 3 690 | 9 406 | -60.77% |

Dividend income constituted the key profit item for the segment. The segment's interest income reached PLN 2 828 000 in 2015. Dividend income in 2016 amounted to PLN 6 674 000, compared to PLN 9 000 000 in 2015. Furthermore, PLN 780 000 in costs connected with a tax proceeding was incurred in 2016.

4. Emperia Group's growth perspectives

4.1 Description of the Issuer's growth policy

Key objectives of the Group's growth policy:

- further dynamic growth of the retail segment,
- sustainable development of the property segment,
- consolidation and expansion of the IT segment,

Growth strategy for the retail segment

- region-centric organic growth nationwide,
- mergers and acquisitions, mostly small and medium-sized regional chains,
- use of lease and rent agreements for retail premises,
- in-house logistics network, organised based on distribution centres and regional warehouses,
- segmentation of supermarkets by sales area and customer groups,
- assortment policy emphasising the various elements that distinguish supermarkets from discount retailers (maintaining a wide-ranging assortment, expanding the convenience assortment, reinforcing in-house brands, focus on fresh produce, increased emphasis on regional products),

Strategy for the property segment

- streamlined structure of the property segment,
- investments on own properties,
- acquisition of attractive commercial properties being sold,

Growth strategy for the IT segment

- search for business partners for mergers and joint ventures,
- development of IT products - software for the retail industry,
- development of electronic data exchange services - EDI, in Poland and abroad through partner companies.

4.2 Description of factors that will have impact on future results

External:

- a) Domestic macroeconomic situation, as measured by indicators: GDP growth, unemployment rate, net household income, inflation/deflation
- b) Changes in tax laws
- c) Changes in the FMCG market
- d) Growth in prices of products and services used by the Group, in particular fuel and electricity
- e) Policies of financial institutions with regard to the financing of businesses and consumers (interest rates, loan margins, collateral)
- f) Job market conditions and costs of employment
- g) Property-market situation, particularly as regards supply of land and properties intended for retail.

Internal:

- a) Business process optimisation (improved operating performance and higher management quality in all segments),
- b) Streamlined structure of the property segment,
- c) Internal cost control policy,
- d) Improvement in retail efficiency, particularly: productivity and costs, logistics and product losses, price policy, loyalty programmes,
- e) Stokrotka retail chain's growth dynamics - organisational changes in the area of development
- f) Stronger motivation for store employees through higher wages

4.3 Risks and threats

External:

Macroeconomic situation - macroeconomic conditions and GDP growth in Poland are particularly important for the Group, especially external factors such as: government's economic policy and decisions made by the National Bank of Poland and the Monetary Policy Council having an impact on money supply, interest rates, currency rates, GDP growth, inflation/deflation, budget deficit, foreign debt and the unemployment rate.

Unfavourable changes in the macroeconomic background, particularly lower GDP growth or increase in unemployment, may have a negative impact on the Group's business and financial performance.

Tax system and legislative changes - tax settlements and other areas of business that are subject to regulations may be the object of audit by administrative organs which are authorised to

impose steep penalties, sanctions and interest. A lack of well-established legal regulations in Poland results in a lack of transparency and inconsistencies when it comes to interpreting the law. Frequent changes to regulations concerning VAT, corporate income tax, individual income tax and social security result in there being no reference to well-established regulations or no legal precedence. Frequent diverging opinions as regards interpreting tax laws both among tax authorities internally and between tax authorities and companies produce unclear, conflicting positions. These circumstances mean that tax risk in Poland is substantially higher than in countries with a more developed tax system.

Tax settlements may be the subject of an audit for a period of five years, counting from the end of the year in which tax was paid. As a result of future audits, the Group's previous tax settlements may be increased by additional tax liabilities. A description of

the tax inspection at the Group concerning 2012 corporate income tax is presented in 6.3.56 b) to the consolidated financial statements.

Competition in retail - the Group's developing medium-format chain is located for the most part in medium and small cities. These areas are the subject of intense pressure from discount chains. Given the increasing saturation in large cities, even large international retailers are stepping up their efforts in smaller towns - i.e. the Group's traditional markets. Current and planned initiatives by the Company's competitors - retail chain operators - may lead to a lower revenue growth at the Group's retail chains as well as to margin pressure, which would have a negative impact on future financial results. In addition, actions by competitors may make it more difficult and/or more expensive to procure new attractive locations.

Internal:

Segment consolidation – the Group is optimising and re-designing its operating segments: retail, IT and property. The large scale and promptness of these changes may give rise to operational risk, understood as losses due to their incompatibility or unreliability with regard to their impact on internal processes, employees and systems. This may result in temporary losses and delays in expected synergies.

IT systems and associated technical infrastructure - the application of uniform, modern and efficient IT systems is of key significance in business processes. Equally important is the associated technical infrastructure which provides fast, reliable

connectivity and data processing. The Group constantly develops, standardises and upgrades IT solutions by developing its own tools and purchasing new offerings. It is possible that potential interruptions in IT system operations could lead to interruptions in business processes and result in lower quality of service.

Acquisitions - generating a higher rate of corporate growth through M&A is a significant element of the Group's strategy. There is a risk that, in the case of certain entities with which the Group is in talks on consolidation, the Group might need to abandon its investment plans because transactions initially identified as attractive may be associated with too much risk or the transaction price expected by the owners of such entities may not be economically justifiable. Also in the case of completed transactions, it may be possible that future financial performance of the acquired entities and the synergy effects will be lower than expected. As a result, the Group's consolidation activities might not translate into growth in revenue and earnings or the acquisition costs may prove too high in relation to the achieved effects.

Suppliers – operating in FMCG retail, the Group has contracts with numerous suppliers, which provide for discounts and favourable payment terms. Despite the fact that none of the Group's companies is dependent on specific suppliers, there is a risk that terminating contracts or negatively changing their terms, especially if this were to happen with a large number of contracts, may have a negative impact on the Group's financial performance.

5. Other significant information

5.1 Description of significant off-balance-sheet items

A description of off-balance sheet items is presented in note 6.3.41 to Emperia Group's consolidated financial statements.

5.2 Mergers, share purchases or disposals, capital increases

A description of subsidiary mergers, share purchases and disposals as well as share capital increases is presented in Emperia Group's consolidated financial statements (note 6.3.54).

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

A description of significant events after the balance sheet date is presented in note 6.3.56 to Emperia Group's consolidated financial statements.

5.4 Information regarding on-going proceedings

Legal case regarding breach of agreement

On 9 May 2012, the Management Board of Emperia Holding S.A. filed a suit with the Court of Arbitration at the Polish Chamber of Commerce against Ernst & Young Audit Sp. z o.o., having its registered office in Warsaw, for payment of PLN 431 053 618.65 as compensation for damages suffered by the Company as a result of the non-performance of an agreement between Emperia Holding S.A. and Eurocash S.A. and Ernst & Young Audit Sp. z o.o. The Company suffered damages due to the fact that Ernst & Young Audit Sp. z o.o. did not draft a report which was to constitute the basis for establishing a price for the shares being sold to Eurocash S.A. As a result of this non-performance of obligations by Ernst & Young Audit Sp. z o.o., a dispute arose between the Company and Eurocash S.A. regarding the share price. An arbitrage proceeding was consequently initiated, which ended in an arrangement consisting of the sale of shares for a price lower than that resulting from the investment agreement between the Company and Eurocash S.A.

On 2 January 2014, the Company received a decision of the Court of Arbitration at the Polish Chamber of Commerce of 11 December 2013, ruling that Ernst & Young Audit Sp. z o.o. pay the Company the following: PLN 795 000 with statutory interest from 6 April 2012 to payment date in damages for non-performance of an agreement executed between Emperia Holding S.A. and Eurocash S.A. and Ernst & Young Audit Sp. z o.o., along with PLN 839 180 for

refund of the costs of the proceeding. The remaining part of the dispute was rejected.

On 17 February 2014, Ernst & Young Audit Sp. z o.o. paid PLN 795 000 in damages, PLN 109 108.77 in interest and PLN 839 180 in refund of the costs of proceedings, bringing the total to PLN 1 827 288.77. The transaction was recognised in the accounts in Q1 2014.

On 2 April 2014, the Management Board of Emperia Holding S.A. filed an appeal with the District Court in Warsaw, 20th Commercial Division, seeking for the ruling of the Arbitration Court at the Polish Chamber of Commerce of 11 December 2013 to be overturned. In Emperia's opinion, the Court of Arbitration issued its ruling in violation of the principle legal regulations in Poland, including the principles concerning full compensation and absolute liability for damages. The Issuer believes that the ruling did not take into consideration some of the evidence, violated equal treatment rules and did not meet the requirements concerning composition of an arbitration body. The value of the dispute being appealed is PLN 430 258 619.

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.

Tax probe by Treasury Control Office

Throughout 2016, the Tax Control Office in Lublin conducted an inspection proceeding at Emperia Holding S.A. concerning the accuracy of declared tax basis and the correctness of CIT calculations and payments for 2011. The current status of the proceeding is presented in point 6.3.56 b).

Aside from the above case, in 2016 the Company did not participate in any other proceedings before a court or other authority concerning liabilities or receivables with an aggregate value exceeding 10% of its equity.

5.5 Significant related-party transactions

At the date on which these financial statements were prepared, Emperia Holding S.A. did not have any unconsolidated related parties.

5.6 Credit facilities, loans, sureties and guarantees

In 2016, the parent, Emperia, did not issue new credit guarantees for subsidiaries such as would exceed 10% of the Issuer's equity. Information concerning guarantees may be found in note **Błąd! Nie można odnaleźć źródła odwołania.** to Emperia Group's consolidated financial statements for 2016. The Group did not execute any material credit or loan agreements in 2016.

5.7 Issuance of securities

On 12 June 2014, the Management Board of Emperia Holding S.A. adopted a resolution on issue by the Company of 114 564 series A bonds convertible to series P shares.

On 15 June 2015, the Management Board of Emperia Holding S.A. adopted a resolution on issue by Emperia Holding S.A. of 44 068 series B bonds convertible to series P shares.

A proposal to purchase bonds was submitted to Millennium Dom Maklerski S.A. In the period 2014-2016, Emperia Holding S.A. bought back all series A and B bonds, as communicated by the Company via current reports.

5.8 Explanation of variances between the financial results indicated in the annual report and in the previously published forecasts for the year

The Parent did not publish earnings guidance for 2016.

5.9 Assessment, with justification, of financial management, with a particular focus on the ability to meet obligations, and description of any threats as well as the steps that the Issuer has taken or intends to take to counteract them

According to the Issuer, there are no indications that the Group's ability to meet its liabilities is threatened. This assessment results from analysis of financial results, ratios and cash flows.

5.10 Assessment of the potential to achieve investment objectives, including equity investments, with consideration given to the amount of capital held and the capacity to change the financing structure for such operations

The investments that are to be completed in 2017 were budgeted based on the organic growth of continuing operations, assuming a region-centric approach.

Decisions regarding the Group's potential equity investments will be made on a case by case basis, after analysing all aspects of the proposed transaction and its financing.

The Group intends to finance the planned capital expenditures using the cash that it holds and will generate, along with bank credit.

The management believes that the Group has the capacity to finance the planned investments. The management monitors investment progress and budgets on an on-going basis, using an internal management control system.

5.11 Extraordinary factors and events having an impact on annual financial performance

Presented below are one-off net results generated on property disposal transactions:

| | 2016 | 2015 |
|---------------------------------------|---------------|--------------|
| Proceeds from disposal of properties | 26 382 | 15 775 |
| Costs of disposal of properties | (23 689) | (16 318) |
| Reversal of consolidation adjustments | 10 853 | 8 732 |
| Gross profit | 13 546 | 8 189 |
| Current tax | (11) | (83) |
| Deferred tax | (2 265) | - |
| Net result | 11 270 | 8 106 |

One-off events having material impact on the segment's results in both of the reporting periods included the disposal of five properties in 2016 and four properties in 2015.

5.12 Remuneration, awards and benefits paid, due to be paid or potentially due to be paid

Information regarding remuneration, awards and benefits, including those resulting from incentive or bonus programmes based on the Issuer's equity, including programmes based on bonds with pre-emptive rights, convertible bonds or warrants, paid, due to be paid or potentially due to be paid is presented in note 6.3.47 to the consolidated financial statements.

5.13 Agreements entered into between the Issuer and management personnel providing for compensation in the event of their resignation or dismissal without valid cause or if their dismissal or redundancy occurs as a result of the Issuer's merger through acquisition

Agreements executed with Management Board members give them the right to additional compensation in the event of dismissal at the Issuer's initiative in an amount equal to 4-12x base salary.

5.14 Agreements that may result in shareholding changes in the future

Emperia Holding S.A.'s Management Board is authorised by the general meeting to execute an agreement with a subsidiary concerning purchase of shares in the Company by that subsidiary and their further sale to the Company for redemption.

5.15 Capital expenditures

In 2016, the Group's capital expenditures totalled PLN 56 608 000, while in 2015 - PLN 65 511 000.
The Group did not incur any environmental protection costs in 2016 or 2015.
The Group's investments in 2016 were financed using own funds.

5.16 Other information essential for assessing the HR, asset or financial situation, financial result and change thereto, as well as information essential for assessing the Issuer's ability to satisfy its liabilities

At the end of the reporting period, the Group did not face risk connected with currency options.

5.17 Fees for the entity authorised to audit financial statements

Information on fees for entity authorised to audit financial statements is presented in note 6.3.48 to the consolidated financial statements.

5.18 Information on significant agreements, including agreements known to the Issuer executed between shareholders, insurance agreements or cooperation agreements

The Issuer does not have any information regarding any such agreements.

5.19 Paid out and proposed dividends

In 2016, Emperia Holding S.A. did not pay out a dividend as part of allocating its 2015 profit. On 30 June 2016, the General Meeting of Emperia Holding S.A. adopted a resolution on use of Emperia Holding S.A.'s 2015 profit to cover prior-period losses and as reserve capital.

Dividends paid out by Emperia Holding S.A.

| Year | Dividend per share (PLN) | Total dividend amount (PLN) | Dividend record date | Dividend payment date |
|------|-----------------------------|--------------------------------|----------------------|--------------------------|
| 2015 | - | - | - | - |
| 2014 | PLN 1.33 | PLN 16 527 963.20 | 5 Jun 2015 | 19 Jun 2015 |
| 2013 | PLN 0.90 | PLN 12 108 622.50 | 13 June 2014 | 30 Jun 2014 |
| 2012 | PLN 0.93 | PLN 13 371 909.20 | 12 Jun 2013 | 26 Jun 2013 |
| 2011 | PLN 56.41 | PLN 817 671 185.86 | 30 May 2012 | 14 Jun 2012 |
| 2010 | PLN 2.63 | PLN 39 243 355.64 | 25 Aug 2011 | 9 Sep 2011 |
| 2009 | PLN 0.92 | PLN 13 905 948.12 | 25 Aug 2010 | 9 Sep 2010 |
| 2008 | PLN 0.59 | PLN 8 917 944.99 | 25 Aug 2009 | 9 Sep 2009 |
| 2007 | PLN 0.88 | PLN 13 301 341.68 | 1 Sep 2008 | 17 Sep 2008 |
| 2006 | PLN 1.74 | PLN 23 090 148.00 | 14 Sep 2007 | 22 Oct 2007 |
| 2005 | PLN 0.35 | PLN 2 322 285.00 | 22 Sep 2006 | 20 Nov 2006 |
| 2004 | PLN 0.32 | PLN 2 123 232.00 | 1 Sep 2005 | 16 Sep 2005 |
| 2003 | PLN 0.27 | PLN 1 791 477.00 | 1 Sep 2004 | 17 Sep 2004 |

5.20 Emperia Group's significant events after the balance sheet date in 2016

Information about Emperia Group's significant events after the balance sheet for 2016 is presented in notes 6.3.53 and 6.3.54 of the Group's consolidated financial statements for 2016.

6. Emperia Group's community outreach

Charitable work plays a significant role in our Group's policy, as evidenced by the Emperia Foundation and a number of programmes focused on helping those in need. Group companies are particularly focused on ecology and environmental protection in their activities.



The Emperia Foundation was established in 2010. It helps out those employees and their loved ones who are faced with difficulties. The Foundation helps out employees and their families - children, spouses and parents - as well as former employees who are now retired. The Foundation also contributes to the development of children and youth. The Foundation co-finances medicine purchases and doctor visits as well as covers the costs of rehabilitation and health travel. The Foundation also supports its beneficiaries in obtaining other forms of assistance.



The initiative consisted of preparing Christmas gifts for a selected family in need. Stokrotka volunteers came together in various groups across Poland and selected families which they wanted to help (based on detailed descriptions of the families' situation and needs). The next stage was preparing packages which were then sent to a warehouse to which a given family was assigned and subsequently sent to the recipients. The Christmas packages, which were received by nearly 12 000 families all around Poland, were worth close to PLN 20 million in total.



Blood drive

Just like every year since 2011, a blood drive for all our employees is being held at the Group's central office. A special bus equipped with mobile blood drawing equipment is brought in for the occasion, and our employees are eager to donate blood right in our car park. The blood drives are a response to the Centre's appeal to replenish drastically low levels of blood stores which are essential to saving lives.



Share-a-Meal Programme

The Stokrotka supermarket chain was a commercial partner of the Share-a-Meal programme. The programme is aimed at combating malnourishment among children and is based on the cooperation of numerous persons and organisations. So far, 10 million meals have been prepared. Aside from measurable results in the form of meals delivered to children, the programme has a social-education component. This includes: raising social awareness of malnourishment among children and activating local leaders and organisations to act towards resolving this problem. Thanks to the activities and ideas of many people, the programme is one of Poland's most popular, engaging several thousand of participants and volunteers.



Environmental protection

Environmental protection is one of the 21st century's largest challenges for humanity. Global problems can be solved only if we all take action. Stokrotka employs 7 500 people across 341 stores, 10 warehouses and at its headquarters. We serve thousands of customers every day. Given such a large number of people and locations, we implement the following pro-environment initiatives:

- collecting plastic caps, which also supports charitable organisations
- gathering used batteries and delivering them for safe utilisation
- providing biodegradable bags
- saving light - thanks to energy-efficient light bulbs and through educating our employees
- waste sorting



Mammobuses

Stokrotka has joined a breast cancer prevention campaign. Mammobuses, mobile breast cancer buses that offer specialty screening services, can often be found at our supermarkets across Poland.



Donation drive for animal shelter

Our Group is committed to helping animals. In the central office around Christmas we collect food, blankets and towels for an animal shelter in Lublin. We wanted to raise our employees' awareness of the everyday problems faced by animal shelters in Poland. These are over-crowding and lack of sufficient funding to meet the animals' needs, particularly visible in the winter. The campaign met with very strong interest, thanks to which homeless animals from the Lublin area received a lot of gifts.



Scholarship programme

Infinite Sp. z o.o. has launched a scholarship programme addressed to the students of the Lublin University of Technology and UMCS in Lublin majoring in IT or related studies. As part of the programme, students get an opportunity to develop their passions and receive employment guarantees once they graduate.

Miesięczne Praktyki Bezpłatne

Our Company values our employees' creativity, involvement and pro-active attitude, which is why we make plenty of young, inexperienced hires - often, graduates from a wide array of studies.

Stokrotka's internships for students and graduates are open all-year-round. Each month, we accept about 10 interns. We offer full-time employment for the best of them.

We've been continuously working with universities and student organisations for a number of years now. One of our key offerings for students is the internship - which allows meeting the Company and gaining first, valuable professional experience.

Benefits for interns:

- interesting, valuable professional experience,
- new skills and practical on-the-job know how,
- getting to know the Company - its standards and expectations towards future employees,
- internship as an important addition on the CV.



Internship and Job Fair

We participate in internship and job fairs throughout Poland on a regular basis. We believe that people who actively look for work will be interested in what we have to offer. We are certain that because of our involvement in the job market we gain valuable and loyal employees, at the same time polishing our company's image as an employer.



Facebook profile for students

With a view toward reaching a wide audience online, Stokrotka Sp. z o.o. has created a source of information and communications - the Facebook profile "Stokrotka-sprawdź nas w praktyce". We show our potential interns and employees the company life, not necessarily just the formal one. We want to encourage them to get interested in our business.



Employee Rewards

In line with our values, we try to appreciate and recognise our employees. Store and headquarters employees are rewarded for their involvement and client-centric attitudes. Aside from rewarding solid work, we also organise numerous competitions that stimulate creativity and openness. One of such competitions is the Simple Idea - Huge Benefits

event, where employees can submit their ideas for innovation during work hours.



Sponsorship

We see strong potential in the company's being socially engaged. We value local initiatives, which often draw large crowds. Supporting local events, campaigns and such also creates a marketing opportunity.



Running team

We support our employees' passions and we help to foster them. At the same time, we want to promote our company. At the initiative of our most top running aficionados, the Stokrotka Team was established. It is supported by our company in terms of marketing and funding. We are proud of our employees.



Stokrotka Passions

Our employees are active not only at work. They partake in diverse, fascinating activities in their free time. We want to support such active behaviours because we believe that a happy employee is also full of passion in his or her professional life. Therefore, we have launched the Stokrotka Passions Programme which co-finances hobbies for our employees.

7. Declaration on application of corporate governance principles in 2016

1. Indication of the corporate governance principles to which the Issuer was subject in 2016, together with the location where the text concerning such principles is publicly available

The Management Board of Emperia Holding S.A., based in Warsaw, ("Company," "Issuer") presents a statement on the application of corporate governance rules by the Company, drafted in accordance with the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information disclosed by issuers of securities and the terms for recognising as equivalent information required by the laws of a non-member state (consolidated text: Polish Journal of Laws of 2014, item 133, as amended).

This statement constitutes a separate part of the report on the Company's operations, which is part of the Company's annual report for 2016.

The Company is subject to a set of corporate governance rules contained in "Best Practices for WSE-Listed Companies," which constitutes an appendix to WSE Council's Resolution no. 26/1413/2015 of 13 October 2015 ("Best Practices"). This set of rules is available at the WSE's website: https://static.gpw.pl/pub/files/PDF/inne/GPW_1015_17_DOBRE_PRAKTYKI_v2.pdf

The Issuer's statement on application of corporate governance standards is available at its website: www.emperia.pl, in the section Investor Relations / Corporate Governance / Statement.

The Issuer aims to ensure the highest possible transparency, an appropriate quality of investor relations and protection of shareholder rights. The Issuer takes every precaution to ensure that all shareholders have equal access to information about the Company. In light of the above, the Company limits communications with the capital market two weeks before earnings releases.

The Issuer discloses current and periodic reports, which are available at its corporate website.

The Company has been preparing quarterly earnings presentations, which it discusses with market

participants during press conferences, therefore facilitating access to information about the Company and meetings with the Company's management.

2. Indication of corporate governance standards that the Issuer decided not to apply, along with justification

In the financial year ended 31 December 2016, the Company observed all of the corporate governance rules specified in Best Practices, except for the following two recommendations: III.R.1 and IV.R.2. and eight specific rules: I.Z.1.3., I.Z.1.15., I.Z.1.20., II.Z.2., III.Z.1., III.Z.4., V.Z.6., VI.Z.4. Recommendations:

III.R.1. Within its structure, the company sets out units responsible for tasks in specific systems or functions unless setting out such organisational units is not justified due to the size or type of the company's activities.

This rule is not being applied.

Commentary from the Company: The Company explains that due to the size and type of the Company's activities no organisational units are set out for specific tasks.

IV.R.2. If justified given the shareholding structure or shareholder expectations and as long as the company is able to provide the technical infrastructure necessary to effectively conduct the general meeting using electronic communications, it should enable shareholders to participate in the general meeting using such electronic communications, in particular through:

- 1) real-time broadcast from the general meeting,
- 2) two-way communication in real time, by way of which shareholders can make verbal statements during general meetings without being physically present at the meeting location,
- 3) exercise of voting rights in the course of the general meeting, either in person or through an attorney.

This rule is not being applied.

Commentary from the Company: According to the Company's Management Board, given a lack of

established market practices, organising general meetings using electronic communications bears legal and technical risk. In addition, according to the Management Board, the Company's rules for participating in general meetings ensure effective exercise of rights attached to shares.

Rules:

I.Z.1.3. scheme for the division of tasks and responsibilities amongst management board members, prepared in accordance with rule II.Z.1,
This rule is not being applied.

Commentary from the Company: The Company does not apply rule II.Z.1 concerning an internal division of responsibilities between management board members. Given the nature and size of the Company's activities and in line with the Management Board Rules in place, the entire Management Board is jointly responsible for all of the Company's operating areas and fulfilment of obligations resulting from law and the articles of association.

I.Z.1.15. information containing a description of the company's diversity policy as regards the company's governing bodies and its key managers; this description should contain elements such as sex, education, age, professional experience and indicate diversity policy objectives and how it is performed in a given reporting period; if the company has not developed and does not apply a diversity policy, an explanation for this decision should be placed on its website,

This rule is not being applied.

Commentary from the Company: *The Company has not developed a diversity policy. The main criterion for key jobs at the Company are competences and meeting job-specific requirements. Elements such as sex or age have no impact on the evaluation of candidates.*

I.Z.1.20. recordings, in audio or video format, of general meetings,

This rule is not being applied.

Commentary from the Company: *According to the Company, the high costs of organising general meetings using electronic communications are incommensurate to potential benefits. Given that the Company does not apply the rule ensuring that shareholders may participate in general meetings using electronic communications, the recording of*

general meetings in audio or video format will not be published on the Company's website.

II.Z.2. Members of the company's management board may sit on the management boards or supervisory boards of companies outside the group if the supervisory board issues consent.

This rule is not being applied.

Commentary from the Company: *Provisions of employment agreements with management board members require the consent of the supervisory board only in the case of posts at competing entities.*

III.Z.1. The company's management board is responsible for implementing and maintaining effective systems for internal control, risk management, compliance and internal audit.

This rule is not being applied.

Commentary from the Company: *The Company explains that currently the Management Board is responsible for overseeing internal processes, including risk management processes. Given its size, the Company does not have formalised procedures or specialised units managing internal, risk management and compliance processes. The Management Board currently sees no need to implement such processes.*

III.Z.4. At least once a year the person responsible for internal audit (if the company has established this function) and the management board present to the supervisory board their assessment of the operation of the systems and functions referred to in rule III.Z.1, together with a report.

This rule is not being applied.

Commentary from the Company: *The Company does not apply this rule because it has not established this function. The Supervisory Board serves as the Company's audit committee.*

V.Z.6. The company specifies in its internal regulations the criteria and circumstances in which a conflict of interest may arise as well as rules for proceeding in the event of an actual or potential conflict of interest. The company's internal regulations take into account, among other things, means for preventing, identifying and resolving conflicts of interest as well as rules for excluding members of the management board or supervisory board from participating in examining cases involving an actual or potential conflict of interest.

This rule is not being applied.

Commentary from the Company: The Company's internal regulations will be expanded so that requirements under this rule are met.

VI.Z.4. In its report on operations, the company places a report on its remuneration policy, including at least the following:

- 1) overall information regarding the company's remuneration system,
- 2) information on the terms and amount of remuneration for each member of the management board, broken down into fixed and variable components, with indication of the key parameters for establishing the variable components of remuneration and rules for paying out severance and other payments related to terminating employment, commission or other similar legal relation - separately for the company and each entity within the group,
- 3) information on any non-financial components of remuneration available to specific members of the management board and key managers,
- 4) indication of significant changes in the remuneration policy taking place in the last financial year, or the lack thereof,
- 5) assessment of the remuneration policy from the viewpoint of achieving its objectives, in particular long-term growth in value for shareholders and the stability of the company's operations.

This rule is not being applied.

Commentary from the Company: In its report on operations, the Company discloses legally-required information about remuneration for members of the Management Board. Currently, the Company does not publish a report on its remuneration policy within the scope described in the above rule.

3. Description of the Issuer's internal control and risk management systems as regards the process of preparing separate and consolidated financial statements

In accordance with the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information disclosed by issuers of securities, the Company's Management Board is responsible for its internal control and risk management systems. The accounting department, which is a part of the Company's financial unit, is responsible for preparing the Company's financial statements and periodic reports. Financial statements are approved by the Management Board. Control and verification of financial statements are conducted by a statutory auditor, who carried out preliminary and final audit of the financial statements of the Company and its consolidated subsidiaries, as well as reviews its semi-annual financial statements. The statutory auditor is appointed by the Supervisory Board.

4. Shareholders directly or indirectly holding substantial stakes in Emperia Holding S.A.

As at 31 December 2016

| Shareholder | Number of shares | % in share capital | Number of votes | % of voting rights |
|--------------------|-------------------------|---------------------------|------------------------|---------------------------|
| Ipopema TFI | 1 458 583 | 11.818 | 1 458 583 | 12.181 |
| Altus TFI | 1 644 493 | 13.324 | 1 644 493 | 13.734 |
| AXA OFE | 977 481 | 7.920 | 977 481 | 8.163 |
| Aviva OFE | 834 991 | 6.765 | 834 991 | 6.973 |
| NN OFE | 755 713 | 6.123 | 755 713 | 6.311 |
| MetLife OFE | 632 417 | 5.124 | 632 417 | 5.282 |

Elpro Development S.A., a subsidiary of Emperia Holding S.A., held 367 991 on 31 December 2016, constituting 2.982% of the Company's share capital.

As at 31 December 2016, the Issuer's share capital comprised 12 342 027 shares with a nominal value of PLN 1 each.

5. Indication of the holders of any securities with special control entitlements and their description

Emperia Holding S.A. does not have securities that would carry special control entitlements or any preference shares.

6. Indication of all limitations relating to exercise of the right to vote, such as a limitation concerning exercise of voting rights by holders of a specified share or number of votes, time limitations concerning exercise of the right to vote - pursuant to which and with the Company's support the entitlements attached to securities are separated from ownership of such securities

Each share in Emperia Holding S.A. entitles to one vote at the general meeting. Art. 6f sec. 8 of the Company's articles of association provides for a limitation of the right to exercise votes (to a vote from only one share) in the event that a shareholder, acting independently or in concert with others, exceeds 33% of the total number of votes and does not notify the Management Board of this fact within seven days and until this is rectified.

The Company's articles of association do not establish any limitations other than those in art. 6f sec. of the articles of association relating to exercise of the right to vote, carried by shares in Emperia Holding S.A., such as a limitation concerning exercise of voting rights by holders of a specified share or number of votes, time limitations concerning exercise of the right to vote - pursuant to which and with the Company's support the entitlements attached to securities are separated from ownership of such securities.

7. Indication of all limitations concerning transfer of ownership to the Issuer's securities

The Company's articles of association do not provide any limitations concerning transfer of ownership to Emperia Holding S.A.'s shares.

8. Description of principles concerning the appointment and dismissal of Management Board members and their entitlements, in particular the right to take decisions on the issue or buy-back of shares

Under art. 9 points 1 and 2 of the Company's articles of association, the Management Board consists of between two and five members, including the President of the Management Board. Management board member terms last three years. The Supervisory Board appoints, dismisses and suspends Management Board members and specifies the number of Management Board members.

The Management Board manages the Company in accordance with the budget and strategic plan, as prepared and approved in accordance with the Company's articles of association, and represents its interests. The Management Board's competences include all matters related to corporate management such as are not reserved by law or articles of association for the general meeting or the Supervisory Board. The Management Board operates pursuant to the Regulations, adopted by the Management Board and approved by the Supervisory Board. The cooperation of two Management Board members or one Management Board member and a commercial proxy is required to make commitments on behalf of the Company.

The Management Board is authorised to undertake all factual and legal actions as regards purchasing own shares for cancellation on the terms and conditions listed in Resolution 3 of the Extraordinary General Meeting of Emperia Holding S.A., based in Lublin, of 11 October 2012 regarding consent by the Company's General Meeting for purchase of own shares by Emperia Holding S.A. and its subsidiaries, and specification of rules for purchasing own shares, amended through Resolution 4 of the Extraordinary General Meeting of Emperia Holding S.A. of 26 November 2014, Resolution 16 of the Extraordinary General Meeting of 27 May 2015, and Resolution 19 of the Extraordinary General Meeting of 30 June 2016. To this end, the Management Board is authorised to execute agreements with one or more of the Company's subsidiaries concerning purchase of shares in the Company, subject to pre-approval by the Supervisory Board.

Subject to the Supervisory Board's approval, the Company's Management Board may pay out dividend advances to shareholders in accordance with legal regulations.

9. Procedure for amendment of the Issuer's articles of association

Draft resolutions concerning amendment of the Company's articles of association require prior examination by the Supervisory Board.

Amending Emperia Holding S.A.'s articles of association requires a general meeting resolution and an entry in the company register. The general meeting resolution concerning amendment of the Company's articles of association requires a three-quarter majority to pass. The Company's general meeting may authorise the Supervisory Board to

establish a consolidated text of the articles of association.

Pursuant to the provisions of the articles of association, a resolution on substantial amendment of the Company's economic activities does not require a buy-back programme, as specified in art. 416 § 4 of the Polish Commercial Companies Code, provided that it is adopted with a two-third majority, with the attendance of persons representing at least half of the share capital.

10. Modus operandi of the general meeting, along with its main authorisations, and a description of shareholder rights and the means for exercising them, in particular rules resulting from the general meeting regulations, if such regulations have been adopted, provided that this information is not directly regulated by the binding provisions of law

The modus operandi of Emperia Holding S.A.'s general meeting, along with its authorisations, results from legal regulations as well as the Company's articles of association and the general meeting regulations. The Company's articles of association and the general meeting regulations are available at the Company's website.

General meetings are called through an announcement containing the information specified in art. 402² of the Polish Commercial Companies Code, published on the Company's website and in the manner specified for publishing current information in accordance with the Act of 29 July 2005 on public offerings and the terms for introducing financial statements to an organised trading system, and on public companies, no later than 26 days before the general meeting date.

In accordance with the Company's articles of association, the general meeting may take place in Lublin or in Warsaw.

The general meeting should be attended by Supervisory Board members in such number as enables responses to be given to questions posed during the general meeting. A statutory auditor should be present at the ordinary general meeting to provide information and explanations concerning the Company's financial statements.

The general meeting's chairperson decides on the attendance of reporters as well as on the recording or filming of the general meeting.

General meeting resolutions are adopted by a regular majority of the shareholders present at the general meeting, unless the binding regulations state otherwise.

In accordance with the Company's articles of association, the general meeting is authorised to perform the following activities:

- examining and approving the Management Board and Supervisory Board reports, balance sheet and statement of profit and loss for the previous year, as well as granting votes of approval to the members of the Company's Management Board and Supervisory Board;
- adopting resolutions on allocation of profit or coverage of loss;
- approving the Company's mergers, split-ups or transformations;
- dissolving and liquidating the Company;
- consenting to the disposal or lease of the Company's enterprise or an organised part thereof and establishment of limited property rights thereon;
- appointing and dismissing Supervisory Board members (including one independent member of the Supervisory Board);
- establishing the principles for and amount of remuneration for members of the Supervisory Board;
- approving agreements between the Company or one of its subsidiaries and Supervisory Board members;
- creating and releasing special-purpose capitals;
- amending the Company's economic activities;
- amending the Company's articles of association;
- issuing convertible bonds or bonds with priority rights;
- selecting liquidators;
- issuing rulings concerning claims for rectification of damage caused in the formation of the Company or in the course of management or supervision;
- examining matters submitted by the Supervisory Board, Management Board or shareholders;
- undertaking activities aimed at introducing the Company's shares to regulated-market trading;

- establishing the ex-dividend date and dividend payment date;
- creating reserve capitals from profit to cover specific losses or expenditures;
- deciding on payment of dividend in assets, especially securities;
- redeeming shares;

Shareholder rights and the means of their exercise

The rights of the shareholders and the means of exercising them result directly from legal regulations. A shareholder(s) representing at least half of the share capital or at least half of the voting rights may call an extraordinary general meeting. A shareholder(s) representing at least one-twentieth of the share capital may request that an extraordinary general meeting be called and to introduce specific items on the agenda, with stipulation that such a request should be submitted to the Management Board no later than 21 days before the general meeting date. The request should contain a justification or a draft resolution concerning the proposed agenda item. The request may be submitted by email.

11. Composition, changes and modus operandi of the Issuer's management, supervisory or administrative personnel, or its committees, during the last financial year

Management Board

In the period 1 January - 31 December 2016, the Issuer's Management Board comprised as follows:

Dariusz Kalinowski – president of the Management Board

Cezary Baran – vice-president of the Management Board

Management Board member terms last three years. The Management Board operates on the basis of the Polish Commercial Companies Code, the Company's articles of association and in accordance with the Management Board regulations, adopted by the Management Board and approved by Supervisory Board, which are available at the Company's website. The cooperation of two Management Board members or one Management Board member and a

commercial proxy is required to make commitments on behalf of the Company.

The Management Board operates in a team-based manner. Each member of the Management Board may, without the prior approval of the Management Board, conduct matters that do not exceed his or her scope of competences, subject to the provisions of law, the Company's articles of association and the resolutions and regulations of the Company's authorities. Each member of the Management Board may, without the prior approval of the Management Board, perform immediate actions concerning the Company's business, the omission of which would cause the Company to suffer irreversible losses. The Management Board operations are led by the President of the Management Board, who coordinates the work of the Management Board members. In the case of a multi-person Management Board, the President of the Management Board assigns the competences of each Management Board member.

The Management Board competences include all matters related to the representation of the Company and management of its business, other than those reserved in the Polish Commercial Companies Code or the Company's articles of association to other authorities.

The Management Board manages the Company's day-to-day operations and represents the Company externally, both in and out of court.

Management Board competences in particular include:

- acting on behalf of the Company and representing it in contacts with public authorities, offices, institutions and third parties,
- executing agreements and incurring liabilities, along with managing the Company's assets,
- calling ordinary and extraordinary general meetings, proposing general meeting agendas and preparing draft resolutions,
- organising the work of employees and establishing their remuneration based on the Company's remuneration principles and organisational regulations, along with awarding pay bonuses,
- participating in the Company's Supervisory Board meetings, if requested, and in general meetings,
- preparing draft marketing, financial, economical, etc. plans,

- providing materials requested by the Supervisory Board and other audit authorities,
- examining and implementing audit and post-audit evaluations and recommendations,
- issuing internal regulations (orders, rules) governing the Company's business.

Management Board meetings are minuted. In the case of a multi-person Management Board, the validity of Management Board resolutions requires the presence of at least two Management Board members. Management Board resolutions may be adopted if all Management Board members were properly notified about the Management Board meeting. Management Board resolutions are adopted with an absolute majority in open voting. In the event that the Management Board meeting features only two Management Board members, decisions must be unanimous.

Supervisory Board

In the period 1 January - 31 December 2016, the Issuer's Supervisory Board comprised the following persons:

Artur Kawa - Chairperson
Michał Kowalczewski - Deputy Chairperson
Artur Laskowski
Jarosław Wawerski
Aleksander Widera

Michał Kowalczewski and Aleksander Widera are independent members.

Supervisory Board members are appointed and dismissed by the general meeting. The Supervisory Board comprises five persons, including at least one independent Supervisory Board member, as referred to in art. 12a sec. 1 of the Company's articles of association. The Supervisory Board members' term is three years.

The Supervisory Board Chairperson and Deputy Chairperson are appointed and dismissed by the Supervisory Board in open voting with a regular majority, as long as at least three Supervisory Board members are present.

The Supervisory Board operates on the basis of the Polish Commercial Companies Code, the Company's articles of association and in accordance with the supervisory board regulations, adopted by the

supervisory board and approved by general meeting, which is available at the Company's website.

The Supervisory Board performs continuous supervision over the Company's business. Other than the matters reserved by the Company's articles of association or legal regulations, the Supervisory Board is particularly entitled to:

- auditing the Company's financial statements, management report and Management Board proposals regarding profit allocation or loss coverage;
- appointing, dismissing and suspending the Company's Management Board members or the entire Management Board;
- delegating Supervisory Board members for temporary roles at the Company's Management Board;
- approving the Management Board regulations;
- determining the remuneration principles of Management Board members;
- approving the issuance of commercial proxies;
- approving the Company's annual economic plans (budget); the budget should include at least the Company's operational plan and a revenue and cost budget for the given financial year (for the entire year and by month), a forecast for the balance sheet and statement of profit and loss, plan for cash flows and plan for capital expenditures (by month);
- approving the Company's long-term strategic economic plans; the long-term strategic plan should cover at least a revenue and cost projection for each of the forecast years, a projection for the balance sheet and statement of cash flows, along with investment plans for each of the forecast years;
- approving all legal or financial activities by the Company or a subsidiary of the Company, including in particular the incurrence of liabilities, as well as issue of own promissory notes, acceptance of endorsed promissory notes, avals or issue of guarantees - or disposals as well as purchase of assets, if the value of such a legal activity, liability or disposal does not exceed PLN 10 000 000, together with approving any equity investments valued at up to PLN 5 000 000, either separately or in many transactions

- during a six month period. - unless such an activity is included in the Company's annual economic plan, approved by the Supervisory Board, and undertaken during the relevant year;
- approving the formation of new companies and disposal by the Company of equity interests;
 - approving the Company's purchases of equity interests in other entities;
 - approving disposals by the Company or one of its subsidiaries of properties, rights to perpetual usufruct or shares in properties;
 - approving agreements between the Company or one of its subsidiaries and the Company's Management Board members, shareholders having at least 5% of voting rights at the Company's general meeting or with related parties;
 - approving the award of rights to shares under management options or similar share-based incentive programmes;
 - selecting the statutory auditor to audit the Company's financial statements in accordance with the accounting principles adopted by the Company;
 - approving the sale or free-of-charge transfer of author's rights or other intellectual property, particularly rights to software source code, such as exceed the regular competences of the Management Board;
 - monitoring system performance for internal control, internal audit and risk management;
 - monitoring financial revision activities;
 - executing underwriting agreements, as specified in art. 433 § 3 of the Polish Commercial Companies Code;
 - approving the Management Board regulations.

Furthermore, the following Management Board functions require Supervisory Board approval in the form of a resolution:

- paying dividend advances to shareholders, on the terms specified by legal regulations;
- approving the commencement of a buy-back programme in order to redeem shares.

Supervisory Board members exercise their rights and fulfil their obligations in a team-based manner. The Supervisory Board may delegate one or more of its members to perform individual oversight functions. Each of the Supervisory Board members has the right to request all information concerning the Company's business and has the right to commission audit of such Company information at their own expense. Each of the Supervisory Board members has the right to review the Company's accounting documentation. The Supervisory Board adopts resolutions if at least three of its members are present at the meeting, and all members were properly invited. Supervisory Board resolutions are adopted with a regular majority of votes. In the case of an even number of votes for and against the adoption of a resolution, the deciding vote belongs to the Chairperson of the Supervisory Board.

In 2016, the scope of activities reserved for the Audit and Remuneration Committee was performed in a team-based manner by the Supervisory Board.

13. Agreements that may result in shareholding changes in the future

The Company's Management Board is authorised by the General Meeting, pursuant to Resolution 4 of the Extraordinary General Meeting of Emperia Holding S.A., based in Lublin, of 11 October 2012, amended through Resolution 5 of the Extraordinary General Meeting of Emperia Holding S.A. of 26 November 2014, Resolution 17 of the Extraordinary General Meeting of 27 May 2015 and Resolution 19 of the Extraordinary General Meeting of 30 June 2016, to execute an agreement with a subsidiary concerning purchase of the Company's own shares by the subsidiary and subsequent sale of such shares to the Company for cancellation.

8. Management Board declarations

8.1 Statement on the accuracy of these financial statements

The Management Board of Emperia Holding S.A. declares that to the best of its knowledge these consolidated annual financial statements and comparative data are drawn up in accordance with International Financial Reporting Standards and interpretations, published in the form of Commission Regulations, and that they correctly, reliably and clearly reflect the Group's financial and asset position together with its financial performance, and that the semi-annual report on Group operations contains a true depiction of the development, achievements and situation of the Group, including a description of key threats and risks.

8.2 Statement and information on the entity authorised to audit these financial statements

The Management Board of Emperia Holding S.A. further declares that the entity authorised to audit financial statements, which audited the Company's annual consolidated financial statements, was selected in accordance with the provisions of law and that the entity and the statutory auditors conducting the audit fulfilled the conditions for issue of an impartial and independent report on audit of the annual financial statements in accordance with binding regulations and professional standards.

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.

Attachment A:

Definitions of financial ratios presented in the report on operations:

EBITDA - operating result + depreciation (EBITDA does not constitute an alternative to profit before tax in the meaning of EU IFRS or to cash flows from operating activities)

Return on invested capital - *(net profit for the period / equity at the end of the period) in %*

Return on assets - *net profit for the period / assets at the end of the period) in %*

Sales margin - *(profit from sales for the period / revenue from sales for the period) in %*

EBITDA margin - *(EBITDA / revenue from sales for the period) in %*

EBIT operating margin - *(operating profit for the period / revenue from sales for the period) in %*

Gross margin - *(profit before tax for the period / revenue from sales for the period) in %*

Net margin - *(profit from sales for the period / revenue from sales for the period) in %*

Inventory turnover days - *(inventory / value of goods for resale and materials sold*number of days in period)*

Receivables turnover days - *(current receivables / revenue from sales*number of days in period)*

Payables turnover days - *([current liabilities - current borrowings] / value of goods for resale and materials sold*365)*

Asset productivity - *(revenue from sales / total assets)*

Non-current asset productivity - *(revenue from sales / non-current assets)*

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