

Annual report on Emperia Group's operations for 2017



Emperia Group means:

The logo for Emperia Holding, featuring the word "Emperia" in a dark blue serif font and "Holding" in a smaller, orange sans-serif font below it.

- *being credible and prioritising shareholder interests*

- *customer-centric culture*

- *growth and openness*

- *working together*

- *effectiveness*

- *reliability and engagement*

Credibility and prioritising shareholder

- 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 14 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 engaged***. 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!

Contents

CEO Letter	7
1. Analysis of key financial data	8
1.1 Changes in key items from the statement of profit and loss	8
1.2 Balance sheet dynamics	9
1.3 Operational performance and ability to meet liabilities	10
1.4 Turnover cycles for key components of working capital	10
2. Description of Emperia Group	10
2.1 Group structure	10
2.2 Information on key products, goods and services provided by Group companies	12
2.3 Sales markets	13
2.4 Significant agreements	13
2.5 Changes in the main management principles	14
2.6 Issuer's shares held by Management Board and Supervisory Board members	14
2.7 Shareholders with at least 5% of votes at the Company's general meeting	15
2.8 Changes in composition of Issuer's Management Board and Supervisory Board	15
3. Emperia Group's operating segments	16
3.1 Retail segment	16
3.2 Property segment	18
3.3 IT segment	20
3.4 Central management segment	21
4. Emperia Group's growth perspectives	21
4.1 Description of the Issuer's growth policy	21
4.2 Description of factors that will have impact on future results	22
4.3 Risks and threats	23
5. Other significant information	24
5.1 Description of significant off-balance-sheet items	24
5.2 Mergers, share purchases or disposals, capital increases	24
5.3 Emperia Group's significant events after the balance sheet date	24
5.4 Information regarding on-going proceedings	24
5.5 Significant related-party transactions	26
5.6 Credit facilities, loans, sureties and guarantees	27
5.7 Issuance of securities	28
5.8 Explanation of variances between the financial results indicated in the annual report and in the previously published forecasts for the year	28
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	28
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	29
5.11 Extraordinary factors and events having an impact on annual financial performance	29
5.12 Remuneration, awards and benefits paid, due to be paid or potentially due to be paid	29
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	30

5.14	Agreements that may result in shareholding changes in the future	30
5.15	Capital expenditures	30
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	30
5.17	Fees for the entity authorised to audit financial statements	30
5.18	Information on significant agreements, including agreements known to the Issuer executed between shareholders, insurance agreements or cooperation agreements	31
5.19	Paid out and proposed dividends	31
5.20	Emperia Group's significant events after the balance sheet date in 2017	31
6.	Statement on Emperia Holding's non-financial data	32
6.1	Business model	32
6.2	Employees	37
6.3	Environment	38
6.4	Communities	41
7.	Declaration on application of corporate governance principles in 2017	44
8.	Management Board declarations	53
8.1	Statement on the accuracy of these financial statements	53
8.2	Statement and information on the entity authorised to audit these financial statements	53
	Attachment A:	54

CEO Letter



Dear Readers,

We present to you Emperia Group's consolidated financial statements for 2017. This was a year of exceptional challenges both for me and for the entire organisation. Focusing on building enterprise value for shareholders, we made improvements in every area of our activities, and our strategy was yielding better and better results.

The Group's core business is in the food product retail segment. The Stokrotka is not slowing down in its expansion. Last year, the number of stores operated by us grew to nearly 440. This was a year of record growth in the number of stores through organic growth.

Stokrotka stores today are not just well-known in the supermarket format but the smaller market format as well. They are recognised for their attractive product offering and locations that are convenient for our clients. In 2017, we expanded our offering to include market stores located in rural areas and convenience stores under the brand Stokrotka Express.

We achieved our goal, which resulted in Stokrotka becoming a strong, successful and recognised player on the retail FMCG market, which is dominated by discount chains. However, to reach further growth stages, we need to increase the scale of our business. In 2017, we focused on acquiring the largest possible number of new and attractive locations by expanding our development team. We are satisfied with the growth rate of our stores and I am certain that we will grow even faster in the coming years.

Our IT and property companies play an important role in building the entire Group's value. Thanks to the Infinite team's support, we have flexibility in implementing IT solutions that raise the quality of customer services and reduce costs. Moreover, by offering its products to external clients, Infinite is consistently strengthening its market position domestically and abroad.

Our own property portfolio managed by Elpro Development is an important factor stabilising our financial results and giving us full control over some of the locations. This year, Elpro also began preparing a number of new investments dedicated to Stokrotka stores in rural areas. The new locations for markets and supermarkets will successfully compete on local markets.

A growing number of Stokrotka stores in Poland is providing us with an increasing brand recognition amongst clients and the scale essential to further improve results. Despite the significant growth we have achieved so far, we believe we can grow even faster. With the support of a new strategic investor selected last year, Maxima Grupè, UAB, we will be able to implement our growth strategy based on our store formats but also to become a participation in the consolidation of the Polish retail market. With its own experience and a strong financial position, this industry investor will markedly improve our potential for further expansion and value creation. Our new strategic partner also brings benefits to our employees, clients and business partners.

The achievements of 2017 became an important milestone for the entire Emperia Group in building its market position also in the future. We showed that in this challenging market we are capable of successfully growing the value of our business and building foundations for further expansion. This lets us take on the next challenges with pride and optimism.

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	2017	2016	%
Revenue from sales	2 576 454	2 385 207	8.0%
Profit on sales	735 768	678 896	8.4%
EBITDA	92 089	110 638	-16.8%
Operating profit (loss)	41 296	61 703	-33.1%
Profit (loss) before tax	37 921	61 233	-38.1%
Profit for the period	34 863	50 552	-31.0%

In 2017, Emperia Group generated results in line with management expectations and achieved its planned growth. The dynamically developing retail segment deserves particular attention, with 77 new Stokrotka stores opened (44 own stores and 33 franchise).

Revenue in 2017 went up by 8.0% from the same period last year, to PLN 2 576 454 000. Revenue growth in 2017 largely resulted from stronger sales in the retail segment.

Net profit in 2017 was PLN 34 863 000, down by 31.0% y/y.

One-off events having material impact on Group results in both of the reporting periods:

- in 2017, no gross profit on property sales were recognised, while in 2016 gross profit was PLN 13 546 000,
- in 2017, the retail segment reversed a PLN 1 394 000 provision for compensations,
- in 2017, the retail segment received funding from the State Fund for the Rehabilitation of the Disabled (PFRON) for previous reporting periods (2013 and 2014), amounting to PLN 2 323 000,
- costs related to Emperia Holding SA's tax proceeding in 2017 amounted to PLN 538 000, compared to PLN 626 000 in 2016,
- finance costs related to Emperia Holding SA's tax proceeding in 2017 amounted to PLN 2 003 000,
- costs related to a strategic options review in 2017 amounted to PLN 3 858 000, compared to PLN 211 000 in 2016,
- settlement of long-term objectives related to growth in enterprise value, costs of special bonuses for the Group's key managers in 2017 reached PLN 5 665 000,
- Stokrotka capitalised a tax loss (PLN 23 399 500) and a PLN 4 446 000 deferred income tax asset in 2017.

1.2 Balance sheet dynamics

	2017		2016		2017/2016
Non-current assets	634 828	55.5%	609 180	57.3%	4.2%
Property, plant and equipment	412 182	36.0%	386 866	36.4%	6.5%
Investment properties	120 512	10.6%	123 441	11.6%	-2.3%
Intangible assets	3 802	0.3%	4 118	0.4%	-7.7%
Goodwill	39 200	3.4%	52 044	4.9%	-24.7%
Financial assets	37	-	37	-	-
Non-current loans	213	0.0%	263	0.0%	-19.0%
Non-current receivables	8 499	0.7%	5 532	0.5%	53.6%
Deferred income tax assets	30 714	2.7%	18 053	1.7%	70.1%
Other non-current prepayments	19 669	1.7%	18 826	1.8%	4.5%
Current assets	508 827	44.5%	453 633	42.7%	12.2%
Inventories	233 759	20.4%	217 962	20.5%	7.2%
Receivables	69 235	6.1%	80 733	7.6%	-14.2%
Income tax receivables	1 420	0.1%	656	0.1%	116.5%
Prepayments	8 037	0.7%	6 087	0.6%	32.0%
Cash and cash equivalents	195 364	17.1%	146 432	13.8%	33.4%
Other financial assets	1 012	0.1%	1 763	0.2%	-42.6%
Total assets	1 143 655	100.0%	1 062 813	100.0%	7.6%
Equity	651 425	57.0%	626 268	58.9%	4.0%
Share capital	12 342	1.1%	12 342	1.2%	0.0%
Share premium	419 964	36.7%	419 964	39.5%	0.0%
Supplementary capital	99 905	8.7%	99 905	9.4%	0.0%
Reserve capital	90 771	7.9%	72 766	6.8%	24.7%
Own shares	-27 540	-2.4%	-23 320	-2.2%	18.1%
Retained earnings	55 983	4.9%	44 611	4.2%	25.5%
Total equity attributable to owners of the parent	651 425	57.0%	626 268	58.9%	4.0%
Total non-current liabilities	16 347	1.4%	20 034	1.9%	-18.4%
Credit facilities, loans and debt instruments	-	-	600	0.1%	-
Non-current liabilities	1 956	0.2%	3 472	0.3%	-43.7%
Provisions	6 759	0.6%	10 474	1.0%	-35.5%
Deferred income tax provision	7 632	0.7%	5 488	0.5%	39.1%
Total current liabilities	475 883	41.6%	416 511	39.2%	14.3%
Credit facilities, loans and debt instruments	746	0.1%	1 122	0.1%	-33.5%
Current liabilities	450 788	39.4%	388 725	36.6%	16.0%
Income tax liabilities	550	0.0%	613	0.1%	-10.3%
Provisions	19 989	1.7%	18 734	1.8%	6.7%
Deferred revenue	3 810	0.3%	7 317	0.7%	-47.9%
Total equity and liabilities	1 143 655	100.0%	1 062 813	100.0%	7.6%

1.3 Operational performance and ability to meet liabilities

Item	2017	2016
Return on invested capital	5.35%	8.07%
Return on assets	3.05%	4.76%
Sales margin	28.56%	28.46%
EBITDA margin	3.57%	4.64%
Operating margin	1.60%	2.59%
Gross margin	1.47%	2.57%
Net margin	1.35%	2.12%

1.4 Turnover cycles for key components of working capital

	2017	2016
Inventory turnover days	47.1	47.4
Receivables turnover days	9.8	12.4
Payables turnover days	95.7	90.4
Asset productivity	2.3	2.2
Non-current asset productivity	4.1	3.9

In 2017, inventory turnover ratio decreased by 0.3 days, receivables turnover by 2.6 days, and payables turnover extended by 5.3 days. In effect, cash conversion cycle was extended by 8.2 days. A substantial growth in revenue from sale in 2017 translated into growth in productivity ratios: total assets by 0.1, non-current assets by 0.1.

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 2017

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 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%
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%
Infinite IT Solutions SRL (1)	SOS. BUCARESTI - PLOIESTI NR. 9-13, ZONA I, ET. 5, SECTOR 1, 13693 BUCHAREST ROMANIA	IT operations	Court Trade Register Office in Bucharest, register no. J40/153324/05.09.2017.	Subsidiary	Full	05-09-2017	100.00%	100.00%

(1) indirectly through Infinite Sp. z o.o. (1 089 shares) and Eldorado Sp. z o.o. (11 shares)

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 through Elpro Development S.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 2017, the Stokrotka chain had 372 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 2017, Stokrotka's franchise chain comprised 71 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 2017, the property management and investment activity structure was at Elpro Development S.A.

The Group's property portfolio comprises 91 properties located all over Poland and includes retail

facilities, land and warehouses. Moreover, the company has 6 own and 15 reserved land parcels for future retail property investments.

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 companies Infinite Sp. z o.o. and Infinite IT Solutions SRL, which provide 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 69.1% of that segment's total revenue in 2017.

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 and products are Group companies, for which the IT segment provides IT services and equipment, maintenance and repair as well as data transmission and archiving. Services provided to Group companies constituted 40.7% of the segment's 2017 revenue. The segment's largest customer in 2017 was a Group company - Stokrotka Sp. z o.o. - whose share in the segment's overall revenue reached 37.0%. 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 2017, 17.1% 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., MBANK S.A., Bank BGŻ BNP Paribas S.A. These banks provide finance in the form of working capital and maintain the Group's bank accounts and invest cash surpluses. In 2017, 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 Compensa Towarzystwo Ubezpieczeń S.A., Vienna Insurance Group and AXA Ubezpieczenia TUiR S.A. as regards transport insurance.

2.5 Changes in the main management principles

There were no changes in the main management principles at the Group in 2017.

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

Management Board members	Shares held, as at 31 December 2017	% in share capital 31.12.2017	% change	Shares at 31 December 2016	% in share capital as at 31 Dec 2016
Dariusz Kalinowski	41 094	0.333%	-	41 094	0.333%
Cezary Baran	600	0.005%	-	600	0.005%

Supervisory Board members	Shares held, as at 31 December 2017	% in share capital	% change	Shares at 31 December 2016	% in share capital as at 31 Dec 2016
Jarosław Wawerski	19 494	0.158%	-	19 494	0.158%

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 2017

Shareholders	Shares held, as at 31 December 2017	% in share capital	% change	Shares held, as at the date on which the previous annual report was published	Percentage stake held, as at the date on which the previous annual report was published	Votes at 31 December 2017	% of votes at general meeting at 31 Dec 2017
Altus TFI	1 835 200	14.87%	11.60 %	1 644 493	13.32%	14.87%	15.40%
Ipopema TFI	1 229 381	9.96%	-15.71%	1 458 583	11.82%	9.96%	10.32%
AXA OFE	977 481	7.92%	-	977 481	7.92%	7.92%	8.21%
Aviva OFE	834 991	6.77%	-	834 991	6.77%	6.77%	7.01%
NN OFE	1 247 697	10.10%	65.10%	755 713	6.12%	10.10%	10.47%

As at 31 December 2017, Elpro Development S.A. held 428 237 shares of Emperia Holding S.A., which are excluded from the count of voting rights at the Issuer's General Meeting.

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.
- Has an MBA degree from Vienna University of Economics and Business
- 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.

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

The composition of Emperia Holding S.A.'s Management Board and Supervisory Board did not change during 2017.

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.).

	2017	2016	%
Segment revenue	2 533 525	2 338 892	8.32%
Profit on sales	722 888	661 414	9.29%
EBITDA	61 342	51 001	20.28%
Operating result	22 307	13 786	61.81%
Gross profit	19 163	11 296	69.64%
Net segment result	22 187	8 395	164.29%

Retail-segment revenue from sales in 2017 went up by 8.32% from the same period last year, to PLN 2 533 525 000. Full-year 2017 revenue was driven by a substantial increase in revenue from existing and newly-opened stores. Net profit in 2017 was PLN 22 187 000, up 164.29% from the previous year.

One-off events having substantial impact on 2017 and 2016 results:

- in 2017, Stokrotka reversed a PLN 1 394 000 provision for compensations,
- in 2017, Stokrotka received funding from the State Fund for the Rehabilitation of the Disabled (PFRON) for previous reporting periods (2013 and 2014), amounting to PLN 2 323 000,
- Stokrotka capitalised a tax loss (PLN 23 399 500) and recognised a PLN 4 446 000 deferred income tax asset in Q4 2017.

Stokrotka retail chain

	2017	2016
Number of stores at the beginning of period	372	327
- stores opened	77	53
- stores shut-down	12	8
Number of stores at the end of period, including:	437	372
- own supermarkets	259	250
- own markets	102	77
- Express markets	5	-
- franchise stores	71	45
Average total store surface - stores opened (in sqm)	390	465
Capex on own stores opened	29 841	28 063

In 2017, the segment continued to dynamically grow its retail chain. As at the end of 2017, the Stokrotka retail segment comprised 437 retail stores, vs. 372 at the end of 2016.

In 2017, a total of 77 stores were opened (including 33 franchise locations), and 12 were shut down. In 2016, a total of 53 stores were opened (including 18 franchise locations), and 8 were shut down.

The Management Board expects the Stokrotka chain to expand by another 120 stores by the end of 2018.

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

	2017	2016	%
Revenue from product sales	2 161.1	2 129.7	1.5%
Store operating costs	487.1	477.7	2.0%
<i>Operating costs as % of revenue</i>	22.5%	22.4%	-
EBITDA	132.1	124.9	5.8%
<i>% EBITDA</i>	6.1%	5.9%	-

Data - 287 Stokrotka stores operating at the end of 2015

Stokrotka headquarters

	2017	2016
<i>central management costs as % of revenue from sales</i>	2.3%	2.2%
<i>marketing costs as % of revenue from sales</i>	1.1%	1.1%

Cash conversion cycle in the retail segment

	2017	2016
Inventory turnover days <i>(inventory / value of goods for resale and materials sold*365)</i>	43.6	45.5
Receivables turnover days <i>(trade receivables / revenue from sales*365)</i>	6.1	6.6
Payables turnover days <i>(trade payables / value of goods for resale and materials sold*365)</i>	71.9	71.7
Cash conversion cycle <i>(difference between inventory turnover cycle and receivables collection cycle vs. payables turnover cycle)</i>	-22.2	-19.6

The cash conversion cycle in the retail segment increased by 2.6 days in Q4 2017, resulting from a decrease in inventory turnover by 1.9 days and decrease in receivables turnover by 0.5 days as well as an increase of payables turnover by 0.2 days.

3.2 Property segment



Currently the property segment covers Emperia Group's property-asset structure, which includes Elpro Development S.A. and Emperia Holding S.A.'s carved out property segment.

A merger of Elpro Development S.A. (the acquiring company) with the following companies took place on 3 April 2017: Elpro Ekon Spółka z ograniczoną odpowiedzialnością S.K.A., P3 Ekon Spółka z ograniczoną odpowiedzialnością S.K.A., P5 Ekon Spółka z ograniczoną odpowiedzialnością S.K.A. and Ekon Spółka z ograniczoną odpowiedzialnością. Elpro Development S.A. assumed all of the rights and obligations of the acquired companies.

	2017	2016	%
Segment revenue	68 606	69 704	-1.58%
EBITDA	38 939	53 734	-27.53%
Operating result	27 359	42 006	-34.87%
Gross profit	30 702	43 551	-29.50%
Tax	(6 678)	(6 615)	0.95%
Net segment result	24 024	36 936	-34.96%

Property-segment revenue in FY 2017 went down by 1.58%, as compared with the same period last year, reaching PLN 68 606 000.

The segment's net profit in FY 2017 was PLN 24 024 000, down 34.96% from the previous year.

One-off events having material impact on the segment's results in both of the reporting periods included a disposal of five properties in 2016. Gross result on property disposals was PLN 13 546 000.

Moreover, Elpro Development S.A. settled a tax loss in 2016 (last year) and received PLN 1 841 000 in income tax savings in three quarters of 2016.

Key information about properties

	2017	2016
Number of properties at the end of period	91	86
including: properties in progress	6	5
operating properties	85	81
including: retail properties	80	76
including: retail - Stokrotka	70	66
retail - others	10	10
other properties	5	5
including: warehouses	4	4
offices	1	1
average monthly net operating income from leasable facilities*	3 440	3 565
including: retail properties	3 150	3 250
leasable area of retail facilities (sqm)	83 158	85 602
including: related tenants	54 030	54 826
other tenants	29 128	30 776
average lease rate (PLN per sqm)	42.9	42.4
including: related tenants	44.3	43.8
other tenants	40.2	39.9

* 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

Four new retail properties were put into service in 2017.

Moreover, at the end of 2017 the company has 6 own and 15 reserved land parcels for future retail property investments.

3.3 IT segment



IT (IT segment), covering the operations of Infinite Sp. z o.o. and Infinite IT Solutions SRL - IT services providers.

	2017	2016	%
Segment revenue	36 659	37 649	-2.63%
EBITDA	4 560	9 018	-49.43%
Operating result	3 066	7 747	-60.42%
Gross profit	2 679	7 970	-66.39%
Net segment result	2 068	6 394	-67.66%

IT-segment revenue from sales in 2017 went down by 2.63% from the same period last year, to PLN 36 659 000. The segment's net profit in FY 2017 was PLN 2 068 000, down 67.66% from the previous year.

	2017	2016	%
Revenue from sale of services	29 292	32 262	-9.21%
<i>including: external</i>	19 732	23 277	-15.23%
<i>of which: foreign</i>	6 263	4 312	45.25%
Revenue from sale of goods and materials	7 367	5 387	36.76%
<i>including: external</i>	2 002	964	107.68%
Total revenue	36 659	37 649	-2.63%
<i>including: external</i>	21 734	24 241	-10.34%

In 2017, external revenue constituted 59.29% of total segment revenue, while in 2016 it accounted for 64.39%.

In 2017, segment revenue from sale of services to external customers constituted 67.36% of total service revenue, while in 2016 it accounted for 72.15%.

In 2017, segment revenue from foreign sale of services constituted 17.08% of total service revenue, while in 2016 it accounted for 11.45%.

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. (remaining part), Eldorado Sp. z o.o.

	2017	2016	%
Segment revenue	898	995	-9.75%
EBITDA	(12 552)	(3 050)	-
Operating result	(12 902)	(3 429)	-
Gross profit	(9 704)	2 997	-
Net segment result	(8 405)	3 690	-

One-off events having material impact on segment results in both of the reporting periods:

- costs related to Emperia Holding SA's tax proceeding in 2017 amounted to PLN 538 000, compared to PLN 626 000 in 2016.
- finance costs related to Emperia Holding SA's tax proceeding in 2017 amounted to PLN 2 003 000,
- costs related to a strategic options review in 2017 amounted to PLN 3 858 000, compared to PLN 211 000 in 2016,
- settlement of long-term objectives related to growth in enterprise value, costs of special bonuses for the Group's key managers in 2017 reached PLN 5 665 000,

The central management segment does not contribute significant value to the Group's consolidated financial statements. The segment's economic significance is currently low. The key item in this segment's results - in both reporting periods - constituted dividend income. Dividend income in 2017 amounted to PLN 6 384 000, compared to PLN 6 674 000 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 stores by sales area and customer groups,
- development of the franchise network,
- 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,
- acquisition of new land parcels,
- investments on own properties,
- acquisition of attractive commercial properties on the market,

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 a subsidiary and 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) Internal cost control policy,
- c) Improvement in retail efficiency, particularly: productivity and costs, logistics and product losses, price policy, loyalty programmes,
- d) Growth dynamic of the Stokrotka retail chain
- e) Search for investor completed

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 note 5.4.

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 for 2017 (note 6.3.55).

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 6.3.57 to Emperia Group's consolidated financial statements for 2017.

5.4 Information regarding on-going proceedings

Tax probe by Treasury Control Office

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

Head of the Tax Control Office in Warsaw established the Company's tax liability regarding corporate income tax for 2011 at PLN 142 463 805. Under art. 53 and 55 of the Tax Ordinance, the Company is also obligated to calculate and pay late interest on the liability.

Factual status:

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

Charges made by the Tax Control Office:

- According to the Head of the Tax Control Office in Lublin, the mandatory cancellation of shares in subsidiary P1 was illusive and the legal activity performed on 29 December 2011 was actually a voluntary share cancellation. This is supposed to be proven by, among other things, the fact that P1 was controlled, in capital and personal terms, by Emperia Holding, and by the fact that reasons for the mandatory cancellation were introduced in P1's founding agreement only when the distribution segment was transferred to it. The Tax Control Office considered that Emperia Holding de facto had agreed to the share cancellation, making it easier to qualify this activity as a voluntary cancellation;
- The Tax Control Office considered that "the parties' intent was to form relations between Emperia Holding S.A. and P1 in a way that, while maintaining legal

compliance, they would aim to reach an objective that would be against tax law." The Tax Control Office made a reference to the tax equality and universality rules and to the autonomy of tax law;

- In consequence, according to the Tax Control Office, the consideration for the alleged transaction consisting of a voluntary cancellation of P1 shares, constituted tax income for Emperia Holding in 2011 (tax arrears of approx. PLN 142.5 million).

Company's position:

- The decision by the Tax Control Office is in clear violation of tax law but also civil and corporate law. The Tax Control Office incorrectly equates the illusiveness of legal activities with formulating the transaction in a manner that does not bring the expected tax proceedings;
- The Extraordinary General Meeting resolution on the mandatory share cancellation may not be considered to be illusive because illusiveness does not apply to one-sided legal activities that are not addressed to anyone in particular;
- There is no legal basis whatsoever for concluding that this matter involves a voluntary cancellation of P1's shares. This form of cancellation requires a share purchase agreement to be executed between the shareholder and the company in order for the company to cancel the shares. No such agreement was executed - which precludes concluding that this was a voluntary cancellation of P1's shares;
- The mandatory cancellation was carried out in compliance with the law and the company's founding agreement, which is confirmed by the register court's decision. Therefore, the Tax Control Office's decision is in contravention to a binding court ruling;
- Despite the fact that the dispute de facto revolves around there being a legal relation (the acquisition by P1 of its own shares for cancellation), the Tax Control Office refused to file a suit in a general court to determine that such an activity had been performed - citing a "lack of objective doubt." The above proves that the Tax Control Office does not have evidence allowing this to be determined by an independent court and, in

- violation of tax proceeding rules, is making standalone rulings in the area of private law.
- In reference to the principle of equity, the Tax Control Office seems to be assuming that in the circumstances of the matter the sole economically justified transaction was a voluntary share cancellation. The business objective of the share cancellation was the transfer of financial resources from P1 to the Group. According to the law, the above objective could have alternatively been achieved through other legal activities that are exempt from tax based on European Union law. The economic sense of the share cancellation should be compared to generating income from equity (as in the case of company liquidation or dividend payment) rather than income from a transaction (from the sale of property rights).
 - The circumstances of the matter and the accusations made by the Tax Control Office were analysed by renowned representatives of academia, tax law and corporate law, who have considered that the position of the Tax Control Office is completely unjustified and in violation of the law.
 - The Company does not agree with these findings and the legal assessment carried out by the Head of the Tax Control Office in the Decision, further it does not see grounds for recognising a provision for the amounts of tax arrears indicated in the Decision.
2. On 10 February 2017, Emperia appealed the decision to the Head of the Tax Chamber in Warsaw.
 3. 8 August 2017 – the Head of the Tax Authority Chamber in Warsaw issued a decision upholding the decision issued by the Head of the Tax Control Office
 4. 21 August 2017 – the Company lodged a complaint with the Voivodeship

Administrative Court, with the intermediation of the Head of the Tax Authority Chamber, regarding the decision issued by the Head of the Tax Control Office, moreover:

- it lodged a motion with the Head of the 2nd Mazowieckie Tax Office in Warsaw for suspension of decision issued by the Head of the Tax Control Office together with a motion to accept collateral for the tax liability concerning corporate income tax for 2011 together with late interest, in the form of a bank guarantee;
 - provided four bank guarantee documents to the Head of the 2nd Mazowieckie Tax Office in Warsaw, issued by the following banks: PKO BP S.A., BGŻ BNP Paribas S.A., mBank S.A. and Bank Pekao S.A., for a total amount of PLN 198 million.
5. 5 September 2017 – the Company received a ruling from the Head of the 2nd Mazowieckie Tax Office in Warsaw on acceptance until 20 August 2018 of a security for the payment of corporate income tax for 2011 in the form of four bank guarantees (PKO BP S.A., BGŻ BNP Paribas S.A., mBank S.A., Bank Pekao S.A.) up to a maximum amount of PLN 198.1 million
 6. 5 September 2017 – the Company received a ruling from the Head of the 2nd Mazowieckie Tax Office on suspension of a decision issued by the head of a tax administration chamber until 20 August 2018
 7. Expected deadline for the case to be examined by the Voivodeship Administrative Court: end of Q2 2018

Aside from the above case, in 2017 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

On 27 April 2017, a Credit Agreement was signed with mBank S.A. Bank PKO S.A., PKO Bank Polski S.A. and BGŻ BNP Paribas S.A., concerning credit facilities for the Issuer's subsidiaries: Elpro Development S.A. and Stokrotka Sp. z o.o.

Item	Term loan (1)	Term loan (2)	Working-capital loan	Guarantee line
Borrower	Elpro Development S.A.	Stokrotka Sp. z o.o.	Stokrotka Sp. z o.o.	Stokrotka Sp. z o.o.
Objective of credit/guarantee	to make a loan to Emperia Holding S.A. to finance a tax liability	to make a loan to Emperia Holding S.A. to finance a tax liability	to finance the Borrower's general corporate objectives	to secure repayment of liabilities under lease or commercial agreements
Amount of credit/guarantee	PLN 150 million	PLN 10 million	PLN 40 million	PLN 25 million
Price terms	WIBOR 3M + bank margin + commissions typical for this type of agreement, including the following: origination fee, commitment fee and administrative fee	WIBOR 3M + margin + commissions typical for this type of agreement, including the following: origination fee, commitment fee and administrative fee	WIBOR 1M + margin + commissions typical for this type of agreement, including the following: origination fee, commitment fee and administrative fee	Commissions typical for this type of agreement, including the following: origination fee, commitment fee and administrative fee
Repayment deadline	27 October 2022	27 October 2022	27 April 2019	27 April 2019
Basic collateral	<ul style="list-style-type: none"> pledge on Elpro Development S.A. shares pledge on bank accounts of Emperia Holding S.A., Elpro Development S.A. and Stokrotka Sp. z o.o. pledge on Elpro Development S.A. properties and rights assignment of rights and receivables under lease and collateral contracts of Emperia Holding S.A. and Elpro Development S.A. assignment of rights and receivables under Stokrotka Sp. z o.o.'s contracts with payment card operators mortgage on properties of Emperia Holding S.A. and Elpro Development Emperia Holding S.A.'s accession into the debt of Elpro Development S.A. and Stokrotka Sp. z o.o. Elpro Development S.A.'s accession into the debt of Stokrotka Sp. z o.o. 		<ul style="list-style-type: none"> mortgage on Stokrotka Sp. z o.o.'s properties pledge on Stokrotka Sp. z o.o.'s inventories assignment of rights and receivables under Stokrotka Sp. z o.o.'s insurance contracts pledge on bank accounts of Stokrotka Sp. z o.o. 	

Annex 1 to the Credit Agreement of 27 April 2017 was signed on 26 June 2017.

In connection with Emperia's intention to provide collateral for the tax liability to the relevant tax authority, as referred to in art. 33d § 2 point 1) of the act of 29 August 1997 - Tax Ordinance, in order to suspend performance of this tax authority's final decision concerning a tax liability in connection with an appeal lodged with the administrative court (if the appeals authority upholds the tax authority's decision), the Banks agreed to issue a guarantee line for the Company on terms specified in Annex 1 to the Credit Agreement.

Annex 1 to the Credit Agreement of 27 April 2017 was signed on 26 June 2017 between the following companies: ELPRO Development S.A., Stokrotka sp. z o.o., Emperia Holding S.A. and banks: mBank S.A., Bank PKO S.A., PKO Bank Polski S.A. and Bank BGŻ BNP Paribas S.A., pursuant to which the above lenders will extend a guarantee line to Emperia Holding S.A. under which bank guarantees for a total amount of PLN 202 million will be issued at Emperia Holding S.A.'s request for the benefit of the State Treasury, represented by the Head of the 2nd Mazowieckie Tax Office in Warsaw, as collateral for Emperia Holding S.A.'s tax liability concerning corporate income

tax for 2011, and Stokrotka Sp. z o.o. will accede to the debt related to these guarantees for a maximum amount of PLN 15 million, jointly and severally with Elpro Development S.A., which will accede to the debt related to these guarantees for a maximum amount of PLN 240 million.

The Company's maximum own contribution to the guarantee lines will be PLN 54 million. The maximum term of validity for these guarantees will be 12 months from the date of issue. Fees for the guarantees will be in the form of an origination commission.

Annex 1 to the Credit Agreement was executed on market terms. The other provisions, including provisions related to penalties, do not differ from provisions commonly applied in this type of agreement.

On 5 September 2017, Emperia Holding S.A. received information on delivery to the tax firm representing it in the case of a ruling by the Head of the 2nd Mazowieckie Tax Office in Warsaw on acceptance of collateral until 20 August 2018 for receivables in the form of four bank guarantees for a total of PLN 198.1 million

Finance costs related to these credit facilities and guarantees reached PLN 2 003 000 in full year 2017.

Information on sureties is presented in note 6.3.41 to Emperia Group's consolidated financial statements for 2017.

5.7 Issuance of securities

Emperia Holding did not issue securities in 2017.

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 2017.

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 2018 were budgeted based on the organic growth of continuing operations.

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:

	2017	2016
Proceeds from disposal of properties	-	26 382
Costs of disposal of properties	-	(23 689)
Reversal of consolidation adjustments	-	10 853
Gross profit	-	13 546
Current tax	-	(11)
Deferred tax	-	(2 265)
Net result	-	11 270

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.

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 6.3.48 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

Six-month non-compete agreements were executed with Emperia Holding S.A.'s management personnel, with remuneration equal to average monthly pay.

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 2017, the Group's capital expenditures totalled PLN 58 589 000, while in 2016 - PLN 56 608 000. The Group's investments in 2017 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 6.3.49 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 2017, Emperia Holding S.A. did not pay out a dividend as part of allocating its 2016 profit. On 28 June 2017, the General Meeting of Emperia Holding S.A. adopted a resolution on use of Emperia Holding S.A.'s 2016 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
2016	-	-	-	-
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 2017

Information about Emperia Group's significant events in 2017 is presented in notes 6.3.56 and 6.3.57 of the Group's consolidated financial statements for 2017.

6. Statement on Emperia Holding's non-financial data

6.1 Business model

Emperia is one of the largest and most active groups in Polish retail (134th in the 500 Largest Companies in Poland ranking*), extending its reaching throughout the country. Established in 1990, Emperia operates in the retail FMCG segment. The group's parent company, Emperia Holding S.A., is responsible for developing strategy and monitoring progress at all of the Emperia Group companies.

Emperia Holding S.A. has been listed on the Warsaw Stock Exchange since 2002. Long-term value creation combined with rigorous corporate governance and business ethics are at the core of our relations with shareholders and investors.

2017	Search for an investor for Emperia Group Property segment merger
2016	Convenience store concept testing
2015	Expansion of IT product portfolio through acquisition of itBCG
2014	Implementation of new retail concepts: markets and franchise
2013	New strategy for retail segment - establishment of in-house logistics
2011	Disposal of Tradis
2006	Consolidation with BOS
2002	Emperia Holding S.A. IPO on the WSE Formation of IT company Infinite Sp. z o.o.
2001	Formation of property company Elpro Sp. z o.o.
1996	Launch of first Stokrotka store
1990	Launch - food wholesale operations

Emperia Group - business lines

Retail

Retail segment – Stokrotka Sp. z o.o.

- Operates in Poland
- Multi-format
- Adapted to local market
- Stores with 200-800sqm of space
- **437** stores at the end of 2017
- Over **8 300** employees
- **9.5 million** clients per month



Store formats



LOCATION	stores opened up in sales catchment area with minimum population of 5 000	substantial differences in format depending on location: large cities vs. small towns in rural areas
	convenient locations encouraging both daily shopping and larger trips	locations encouraging quick shopping
ASSORTMENT	wide assortment, with a particular focus on fresh produce: meats, vegetables and fruits	basic assortment for daily and weekly shopping
	between 5 500 and 10 000 SKUs	between 3 500 and 5 000 SKUs
SALES FLOOR SPACE	400 - 800 sqm	200 - 400 sqm
CAPEX PER AVERAGE STORE	PLN 1.1m	PLN 0.6m

Competitive advantages

- wide offering of fresh and regional products that are important to clients
- modern logistics dedicated to fresh products
- capacity for dynamic organic growth thanks to a multi-format strategy
- strong, recognisable brand, particularly in eastern parts of the country
- proven management team
- advanced operational, sales and IT solutions

Property segment



Property segment – manages the property portfolio in support of Stokrotka's development. The segment invests exclusively in facilities intended for retail operations. The segment manages the property portfolio, procures new locations and executes development projects. Its investment strategy sees it focus on mini shopping galleries or shopping parks. Elpro Development S.A. manages this segment.

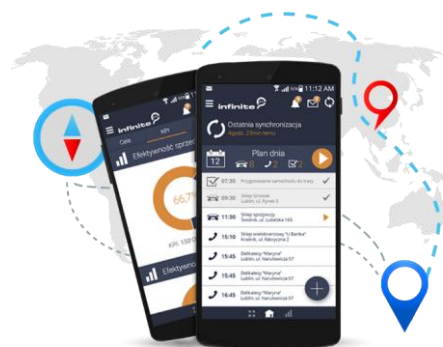
IT business

Infinite Sp. z o.o. is a provider of specialised IT solutions for business, with 14 years of market experience. At the core of the systems developed by Infinite lies automation of key business processes, such as electronic data exchange, e-archiving, management of incoming and outgoing mail, mobile salesforce management.

Infinite's wide range of services is used by over **5 000 businesses** in **Europe** as well as **Middle East and North Africa**. Infinite's clients include both small and medium businesses as well as large international companies of various industries: FMCG, automotive, heavy industry, logistics, DIY, ICT, banking and finance.

Infinite employs nearly 200 people.

The company's **dynamic development** is driven by a consistently implemented **strategy and a strong focus on client needs**.



Infinite's new solutions



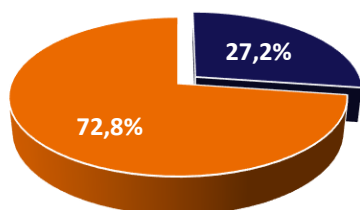
Infinite's additional solutions



6.2 Employees

2017

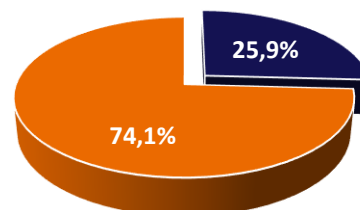
Employment structure



■ White-collar ■ Blue-collar worker

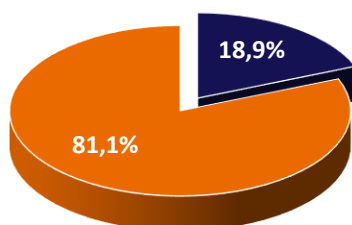
2016

Employment structure



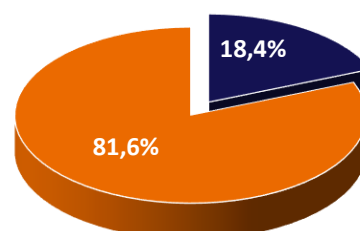
■ White-collar ■ Blue-collar worker

Employment structure by gender



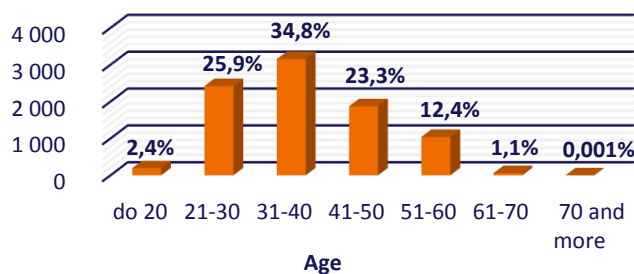
■ Men ■ Women

Employment structure by gender

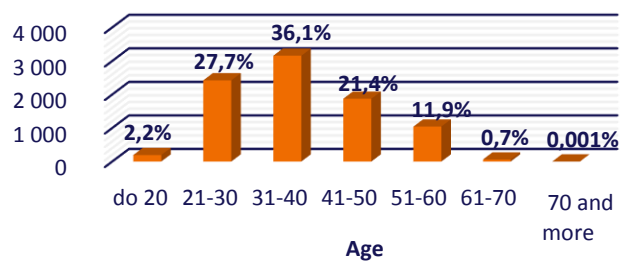


■ Men ■ Women

Employment structure by age



Employment structure - age



Growth dynamics and geographical dispersion mean that Emperia Holding places emphasis on adaptation training and training to support the implementation of new solutions in workplaces. Training for store managers take place in specialised training stores. The chain also has a team of dedicated trainers who conduct a range of training for store employees. Most types of such training is in the 'on the job' formula. In 2017, the trainers conducted over 6000 hours of workplace training in customer service standards, rules of exposure and offering quality.

Given the company's operational scale and strong growth dynamic, Emperia Holding complements/supports the training process with e-learning courses. In 2017, the company trained 12 326 people on the e-learning platform.

Stokrotka places emphasis on internal promotions and organises once a year a development programme for employees, which supports this element of HR policy.

The company also organises a range of soft skills training (including HR management, objectives communication, team work, trainer competences and knowledge sharing) as well as specialist skills for specific operating areas (including HR and payroll, recruitment, properties, food product quality, IT systems and programmes, marketing, logistics, controlling, trade, legal). In 2017, Emperia Holding support the development of its employees by participating in fairs and conferences as well as open and closed-door training workshops. It carried out 1 259 person-days of training in this formula.



Employee Competitions

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. 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.

6.3 Environment



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. Emperia Holding employs over 8 600 people across 430 stores, 10 warehouses, the central office as well as 85 operating facilities. We serve thousands of customers every day. Given such a large number of people and locations, we implement the following pro-environment initiatives:

Emperia Holding is fully aware of the risks and threats of overt environmental damage, which is why it continuously searches for new technological solutions that will improve our operational effectiveness and directly translate into environmental protection.

Key activities in environmental protection

Upgrade of car fleet

- Emperia Holding regularly updates its car fleet. One of the decision criteria in selecting new cars is their environmental footprint. Systematic replacement of cars results in the Group's fleet using less and less fuel and meeting the latest and most restrictive emission standards. Such a solution constitutes a real benefit from both economic and environmental viewpoint.
- Stokrotka's logistics division operates 68 lorries. These are cold store vehicles. This type of vehicle is used to ensure that the products being transported remain cool. Each of the vehicles has a food safety certificate allowing transport of food products. These vehicles comply with European emission standards Euro 5 and Euro 6. We strive to replace Euro 5 vehicles with Euro 6 vehicles. All vehicles are equipped with a GPS system, which allows to minimise fuel consumption and maximise the use of vehicles.

New cold store technologies

- Decision to stop using central negative systems, including freezers, cabinet freezers, centrally-powered solid door freezers. These often were open-top units, which were very energy-intensive. Now, we use plug-in type units for frozen products. These are closed and energy efficient units, mostly with natural factors such as R-290 (propane) and R600a (isobutene). These units also have inverter compressors with variable output, which allows power to be regulated smoothly, as well as LED lighting. Plug-ins are also better in terms of product safety - if the unit unfreezes, product losses are smaller than what we had to deal with previously, which means fewer resources are going to waste.
- We use Costan refrigerators made by EPTA and certified by Eurovent (Eurovent Certified Performance), which meet energy standards for refrigeration equipment. In selecting refrigerators for the Stokrotka chain, we always take into account energy indicators, including Total Energy Consumption (TEC) - total energy consumption by refrigerating equipment on lighting, ventilators and use of cooling. This value must be as low as possible because in the long term we are able to save electricity, which is also beneficial for the environment (lower CO2 emissions) and it brings us economic benefits.
- The refrigeration systems built in our stores for several years are based on refrigerants with reduced GWP (Global Warming Potential), i.e. R407F, and we are beginning to use R448A and R449A refrigerants, which have an even smaller greenhouse gas footprint. We are also considering a retrofitting project for the existing refrigeration systems that use refrigerants with greater GWP (R404A) to be replaced with lower-GWP R448A and R449A or natural refrigerant R744 (CO2) or solutions based on a waterloop, which radically decreases refrigerant consumption. Condensing units in market-type stores are most frequently fitted with compressors with adjustable output, letting us save electricity. New refrigerants are also more efficient, which gives even greater savings.

- We are also testing systems based on natural refrigerants - we have a store in Lublin (ul. Onyksowa) using R744 (CO₂), which is an ecological solution - does not increase the greenhouse effect because it uses CO₂ as refrigerant. This is in line with the current market trends. The test store also features other modern and energy efficient solutions such as electronic expansion valves, modern equipment control and temperature monitoring. We are analysing whether such solutions will be beneficial to us in many aspects, e.g. for product quality and safety. This will certainly necessitate greater expenditures in this area.
- For lighting in sales areas, we used energy efficient LED lighting.
- Stokrotka supports the natural environment by collecting batteries. Each store has a special container near the counters intended for used batteries.

Waste electronic equipment disposal programme

- With a view to protecting the environment, Emperia Group companies participate in a waste electronic equipment disposal programme. Infinite Sp. z o.o. stores equipment delivered from all parts of Poland at a central warehouse. Once an appropriate amount of equipment is collected, a firm specialising in the disposal of waste equipment is called in, collects the equipment from the central warehouse and issues a waste receipt protocol.

Cleanliness and hygiene

- The materials for cleansing and disinfection used at Stokrotka are specialist detergents dedicated to the food industry and food storage/trade locations. These materials meet the highest standards for performance and safety to the environment.

Waste recycling - paper, film

- Stokrotka Sp. z o.o. has a waste collection agreement with Glopac Sp. z o.o, based on which Stokrotka Sp. z o.o. sells and Glopac collects, at its own cost and risk, waste coded 15 01 02 and 15 01 01, as designated in the Ordinance of the Minister of Environmental Protection of 27 September 2001 on the waste catalogue (Polish Journal of Laws no. 112, item 1206). The waste disposed of in 2017 was worth PLN 258 082.80.

waste code	Sum for 2017 (Mg)	Sum for 2016 (Mg)
15 01 01	6 834.650	4 654.62
15 01 02	234.089	103.24
Final sum	7 068.739	4 757.86

Municipal waste management system

- In accordance with the Act of 13 September 1996 on cleanliness and order in municipalities, which specifies the requirements for various entities related to municipal waste management, Stokrotka Sp. z o.o. as an entity producing waste is obligated to manage it in a way that does not have a negative impact on human life and health and the environment.
- Caring for the environment, Stokrotka stores try to sort rubbish into paper, metals, plastics and glass. This waste management system makes it possible to re-use resources and reduces the quantity of waste sent to landfill sites. It also reduces costs related to waste management by nearly 50%, i.e. about PLN 3.5 million per year, compared to not sorting the rubbish. In 2017, this waste collection system was in place at approx. 38% of the stores. At 8 locations (2 stores in Gdańsk, 4 stores and a central warehouse in Sosnowiec and 1 store in Sławatycze) waste is sorted into dry and wet waste and glass. This made it possible to send approx. 203.00 m3 of glass for re-use in 2017. For comparison, in 2016 this amount was about 190 m3. At the other locations, plastics are also collected separately (2017 - approx. 562.00 m3, 2016 - approx. 527.00 m3). Moreover, separate bins are located in stores, into which clients can throw away waste batteries.
- At locations where waste is not sorted, waste is collected frequently enough so as not to overflow the bins and cause a hazard to water, earth and air.
- Paper and film are covered by an individual waste management system based on separate contracts. In order to ensure optimal management of these resources, stores are equipped with a baler or, alternatively BIGBAG-type bags. This solution makes it possible to recover a significant quantity of paper (283.02 Mg of packaging waste for recycling was recovered at locations in Augustów, Białystok, Gorzyce, Łódź, Suwałki, Teresin, Tychy in 2017, compared to 249.52 Mg in 2016).
- Given the gradual entry into force of the Ordinance of the Minister of Environment of 29 December 2016 regarding waste sorting for certain municipal waste, Stokrotka stores in 2018 are expanding the waste sorting system, sorting also bio-waste, which can be used for energy purposes as a renewable energy source. This will lead to even greater waste recovery rates, especially bio-waste, around the country.

6.4 Communities

Emperia Group is not indifferent to the people and the surroundings in which it operates. We are actively involved in a range of activities. Community activity plays a significant role in our Group's policy, as evidenced by a number of programmes focused on helping those in need. We try to make our employees aware of the need to help others and we encourage them to get involved.

Quality control

- Stokrotka Sp. z o.o. has implemented food safety management systems in compliance with existing legal regulations. We have a GHP system and HACCP system, which analyses and sets out critical control points at selected stages of warehousing and distribution where risk to food safety is the highest. In accordance

with the implemented documentation, designated personnel in stores monitor food safety and quality, including the effectiveness of cleaning and disinfection processes, quality of products accepted into the store, and the safety of warehousing of products that require constant refrigeration. Any breaches of critical limits trigger immediate inspections/regulation/repair of refrigeration equipment. The level and performance of food safety management systems is systematically controlled via internal audits carried out by the Quality and Operational Audit Division.



Stokrotka Helps

Stokrotka Helps is an employee volunteering programme. In successive editions of the competition, our employees achieved fantastic results. They have so far completed 18 projects, in which over 100 volunteers from Stokrotka Sp. z o.o. participated.



Blood drive

Just like every year since 2011, a blood drive open to 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.



Food and school supply collection drives

Every year, Stokrotka works with the Polish Red Cross, Caritas Polska and the Food Bank. Around Easter and Christmas, we organise food collections drives for poor families at our stores. During Christmas, we also take part in the campaign Help Children Survive Winter. We promote these food drives in our advertising publications and we encourage our employees to actively participate in them. Around September, we work with the Polish Red Cross and Food Banks to collect school supplies at select stores for children from poor families. Each client visiting a Stokrotka store can participate in the campaign and help those in need.



Our Company values our employees' creativity, involvement and pro-active attitude, which is why we make plenty of young, inexperienced hires.

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, we have 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.

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. Stokrotka was a sponsor of a running event cycle - "Dycha do Maratonu."

7. Declaration on application of corporate governance principles in 2017

1. Indication of the corporate governance principles to which the Issuer was subject in 2017, 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 2017.

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 2017, 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 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 this is justified by the shareholding structure or shareholder expectations and as long as the company is capable of providing the technical infrastructure necessary to effectively conduct general meetings using electronic communications, it should allow its shareholders to participate in general meetings using such means, especially 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, in person or through an attorney, of voting rights during the general meeting.

This rule is not applied.

Company comment: 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 applied.

Company comment: 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.

Company comment: 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.

Company comment: 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 applied.

Company comment: 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 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 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 sets out, in internal regulations, the criteria and circumstances in which a conflict of interest might arise and rules for proceeding with an actual or potential conflict of interest. The company's internal regulations take into account ways to

prevent, identify and resolve conflicts of interest and rules for excluding management board or supervisory board members from participating in resolving matters subject to a conflict of interest.

This rule is not applied.

Company comment: *The Company's internal regulations will be expanded so that requirements under this rule are met.*

VI.2.4. In its report on operations, the company presents a report on its remuneration policy, which contains at least the following:

- 1) general information on 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 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 its objectives, especially long-term growth in value for shareholders and the company's operational stability.

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 applied in 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 2017

Shareholder	Number of shares	% in share capital	Number of votes	% of votes at general meeting
Altus TFI	1 835 200	14.87	1 835 200	15.40
Ipopema TFI	1 229 381	9.96	1 229 381	10.32
AXA OFE	977 481	7.92	977 481	8.21
Aviva OFE	834 991	6.77	834 991	7.01
NN OFE	1 247 697	10.10	1 247 697	10.47

Elpro Development S.A., a subsidiary of Emperia Holding S.A., held 428 237 own shares as at 31 December 2017, constituting 3.470% of the Company's share capital.

As at 31 December 2017, 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 was 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. The buy-back programme ended on 30 June 2017.

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 2017, 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 2017, 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 are 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 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 planned, 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.

Audit Committee.

Until 11 September 2017, the Audit Committee's tasks were performed by the Company's Supervisory Board collectively.

Given the necessity to appoint an Audit Committee at the Company pursuant to the Act of 11 May 2017 on statutory auditors, audit firms and public oversight, the Company's Supervisory Board on 11

September 2017 adopted resolution 1/09/2017 on appointment of the Audit Committee, comprising:

- Aleksander Widera – Chairperson of the Audit Committee
- Jarosław Wawerski - Member of the Audit Committee
- Michał Kowalczewski - Member of the Audit Committee

The Chairperson of the Audit Committee was appointed by the Supervisory Board.

Audit Committee members meet the criteria specified in the Act on statutory auditors, audit firms and public oversight of 11 May 2017. The independence criteria are met by Aleksander Widera and Michał Kowalczewski, and they have knowledge and skills in financial reporting. All members of the Audit Committee have knowledge of the industry in which the Company operates.

The Audit Committee is authorised to perform financial revision activities at the Company, including especially:

- a) monitoring the financial reporting process;
- b) monitoring system performance for internal control, internal audit and risk management;

- c) monitoring financial revision activities;
- d) monitoring the independence of the statutory auditor and entity authorised to audit financial statements;
- e) informing the Supervisory Board about audit results and explaining how the audit contributed to the reliability of the Company's financial reporting and what the Audit Committee's role was in the audit;
- f) conducting assessments of the statutory auditor's independence and expressing consent for the statutory auditor to provide permissible non-audit services for the Company;
- g) developing a policy for selecting the audit firm to carry out audit;
- h) developing a policy for the provision of non-audit services by the audit firm, its related parties and members of its audit network;
- i) establishing a procedure for selecting an audit firm for the Company;
- j) presenting to the Supervisory Board recommendations on audit firm appointments;
- k) providing guidelines to ensure the reliability of the Company's financial reporting processes.

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. Lecha Kaczyńskiego 14, to 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, 24 April 2018

Signatures of all Management Board members:

Dariusz Kalinowski	President of the Management Board Signature
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Cezary Baran	Vice-President of the Management Board, Finance Director Signature
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Signatures of persons responsible for book-keeping

Elżbieta Świniarska	Economic Director Signature
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