



**Management report  
on the operations of Emperia Holding S.A.  
in 2016**

**PREPARED IN ACCORDANCE WITH IFRS  
AS ENDORSED BY THE EU**  
*(data in PLN 000s)*

WARSAW

## Contents

1.	Financial highlights.....	3
2.	Scope of Emperia Holding S.A.'s business.....	4
3.	Assessment of financial management in 2016 using liquidity ratios, along with the structure, rotation and level of debt.....	4
4.	Sales markets .....	5
5.	Significant agreements.....	5
6.	Key events at Emperia Holding S.A. in 2016 .....	5
7.	Significant events after the balance sheet date.....	5
8.	Extraordinary events having an impact on annual financial performance .....	5
9.	Revenue and profit by operating segment .....	5
10.	Capital expenditures .....	6
11.	Company's dividend policy .....	6
12.	External factors which might have an impact on Emperia Holding S.A.'s results in the coming year.....	6
13.	Growth perspectives .....	7
14.	Significant related-party transactions.....	7
15.	Information regarding on-going proceedings .....	7
16.	Credit facilities, guarantees, loans and sureties .....	8
17.	Changes in key management principles.....	8
18.	Description of Group structure .....	8
19.	Effects of changes in the Company's structure.....	8
20.	The management's view as regards meeting guidance published for a given year .....	8
21.	Shareholder information.....	9
22.	Shareholding by management and supervisory personnel .....	9
23.	Related-party transactions.....	9
24.	Declaration on application of corporate governance principles.....	9
25.	Management Board declarations .....	9

## 1. Financial highlights

Item	2016	2015	%
Revenue from sales	15 952	15 539	2.7%
EBITDA	5 821	6 651	-12.5%
Operating profit	4 149	4 910	-15.5%
Profit before tax	18 869	27 042	-30.2%
Net profit	18 014	25 444	-29.2%
Total assets	491 531	509 606	-3.5%
Liabilities and liability provisions	24 072	60 200	-60.0%
Current liabilities	23 256	59 437	-60.9%
Net assets	467 459	449 406	4.0%
Weighted average number of shares	12 086 113	12 506 772	-3.4%
Net earnings per share (in PLN)	1.49	2.03	-26.6%

### Operational performance and ability to meet liabilities

Item	2016	2015
Return on invested capital (net profit for the period / equity at the end of the period) in %	3,85%	5.66%
Return on assets (net profit for the period / assets at the end of the period) in %	3,66%	4.99%
Sales margin (profit from sales for the period / revenue from sales for the period) in %	55.15%	51.67%
EBITDA margin, in %	36,49%	42.80%
EBIT operating margin (operating profit for the period / revenue from sales for the period) in %	26.01%	31.59%
Gross margin (profit for the period / revenue from sales for the period) in %	118,29%	174.02%
Net margin (profit from sales for the period / revenue from sales for the period) in %	112,93%	163.74%

The Company reported a more than 29% increase in net profit in 2016, compared with 2015. This year's result was impacted by a lower result on financing activities than in the preceding year (mainly lower dividend income from subsidiaries, see note 39). Administrative expenses substantially increased (by approx. 38%), mainly due to consulting, advisory and legal services.

## 2. Scope of Emperia Holding S.A.'s business

Emperia Holding S.A. is a holding company for entities comprising Emperia Group, and in particular provides services such as legal, management accounting, book-keeping, HR, IT, cash flow management, investment and email management. After the restructuring process and change in the shared services strategy, Emperia now focuses on providing services to companies mainly in the property development segment.

Furthermore, the Company provides trade intermediary services (support services for trade partners in the retail segment).

The Company also manages properties: own and those belonging to other companies in the property segment.

Geographical scope of the Company's property development activities in 2016:

Lublin voivodship: Lublin (Projektowa), Lublin (Kunickiego), Lublin (Męczenników Majdanka), Lublin (Nałkowskich), Lublin (Dąbrowica), Sub-Carpathian voivodship: Rzeszów (Kwiatkowskiego). Emperia Holding S.A. operates in Poland.

## 3. Assessment of financial management in 2016 using liquidity ratios, along with the structure, rotation and level of debt

Liquidity ratios	2016	2015
Current ratio (current assets / current liabilities)	0.36	0.43
Quick ratio (liquid current assets / current liabilities)	0.36	0.43
Cash ratio (short-term investments / current liabilities)	0.23	0.37

Liquidity ratios are lower than after the same period of 2015. This was mainly caused by a 68% fall in current assets (buy-back of bonds by subsidiaries and sale of Ipopema's units), with a 60% decline in current liabilities. At the end of 2016, the decline in liabilities resulted mainly from the settlement of a buy-back programme towards a subsidiary (Elpro Development).

Turnover cycles for key components of working capital	2016	2015
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)	67.58	91.41
Payables turnover days (current trade payables / cost of products and services sold*number of days in period)	28.21	70.21
Asset productivity (revenue from sales / total assets)	0.03	0.03
Non-current asset productivity (revenue from sales / non-current assets)	0.03	0.03

In 2016, the Company's activities did not include the sale of goods, while sales of materials were marginal. A decline in the receivables turnover ratio resulted mainly from a decrease in current receivables by 24% (note 6.3.11 in Emperia Holding S.A.'s financial statements). The level of current liabilities decreased by 61% from 2015, largely due to the settlement of a buyback programme (note 6.3.21 in Emperia Holding S.A.'s financial statements).

Debt ratios	2016	2015
Debt ratio (liabilities and liability provisions / total assets)	0.05	0.12
Debt to equity (liabilities and liability provisions / equity)	0.05	0.13
Equity-to-assets ratio (equity / total assets)	0.95	0.88
Long-term debt ratio (non-current liabilities / total assets)	-	-

#### 4. Sales markets

Despite a limited scope for holding services provided, the Company's main customers continue to be subsidiaries within Emperia Group.

#### 5. Significant agreements

As regards banking services, the Company works with PKO BP S.A., Bank PEKAO S.A. and mBank S.A.

From 1 April 2016, Emperia insures its assets with Ergo Hestia S.A. and holds civil liability insurance. Insurance agreements are executed for a 12-month period. As regards motor insurance, an agreement was entered into with Liberty Seguros Compania de Seguros y Reaseguros S.A., branch in Poland.

Agreements significant to the Company's activities include: property rental agreements, property management agreements, commercial intermediation services agreements.

#### 6. Key events at Emperia Holding S.A. in 2016

Significant events are described in Note 6.3.51 in Emperia Holding S.A.'s financial statements.

#### 7. Significant events after the balance sheet date

Significant events taking place after the balance sheet date are described in Note 6.3.52 in Emperia Holding S.A.'s financial statements.

#### 8. Extraordinary events having an impact on annual financial performance

No extraordinary events having an impact on results took place in 2016.

#### 9. Revenue and profit by operating segment

Revenue and profit by operating segment at Emperia Holding S.A. in 2016: are described in point 6.2.3 in Emperia Holding S.A.'s financial statements.

## 10. Capital expenditures

In 2016, PLN 0.9 million was spent on CAPEX, mainly in connection with the completion of renovation of an office and the purchase of vehicles. Other investment-related events are described in Note 6.3.52 in Emperia Holding S.A.'s financial statements for 2016.

## 11. Company's dividend policy

As of the date on which this report was prepared, the Management Board had not adopted a resolution on a recommendation on the allocation of the 2016 profit.

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

### Dividends received:

The management board of subsidiary Infinite Sp. z o.o. passed a resolution on the payment of a dividend of PLN 6.674 million to Emperia Holding S.A. Furthermore, Elpro Development S.A.'s General Meeting passed a resolution on the payment of PLN 8 million in dividend to Emperia Holding S.A.

## 12. External factors which might have an impact on Emperia Holding S.A.'s results in the coming year

### 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) Conditions on the property market, in particular the development segment

### Internal:

- a) Business process optimisation (improved operating performance and higher management quality in all segments),
- b) Streamlined structure of the property segment,
- c) Procurement of attractive retail locations,
- d) Internal cost control policy,
- e) Growth dynamic of the retail chain.

### **13. Growth perspectives**

Emperia Holding S.A. is a holding company the core business of which is management of the Group's subsidiaries and certain central functions such as: financial management, IT services, management of selected asset and liability groups, etc. In 2016, the Company was involved in property development. This business diversification is in line with the Company's strategy.

### **14. Significant related-party transactions**

In 2016, Emperia Holding S.A. did not execute any significant transactions with related parties other than transactions in the ordinary course of business on market terms. Short-term bonds were issued as part of the Group's cash flow management, as described in detail in Note 6.3.12 in Emperia Holding S.A.'s financial statements for 2016. Other intra-Group transactions are presented in detail in Note 6.3.42 in Emperia Holding S.A.'s financial statements for 2016.

### **15. Information regarding on-going proceedings**

#### **Legal case regarding breach of agreement**

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

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

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

On 2 April 2014, the Management Board of Emperia Holding S.A. filed an appeal with the District Court in Warsaw, 20th Commercial Division, seeking for the ruling of the Arbitration Court at the Polish Chamber of Commerce of 11 December 2013 to be overturned. In Emperia's opinion, the Court of Arbitration issued its ruling in violation of the principle legal regulations in Poland, including the principles concerning full compensation and absolute liability for

damages. The Issuer believes that the ruling did not take into consideration some of the evidence, violated equal treatment rules and did not meet the requirements concerning composition of an arbitration body. The value of the dispute being appealed is PLN 430 258 619.

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

#### **Tax probe by Treasury Control Office**

Throughout 2016, the Tax Control Office in Lublin conducted an inspection proceeding at Emperia Holding S.A. concerning the accuracy of declared tax basis and the correctness of CIT calculations and payments for 2011. The current status of the proceeding is presented in point 6.3.53, sub-point c, in Emperia Holding S.A.'s financial statements for 2016.

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

### **16. Credit facilities, guarantees, loans and sureties**

In 2016, Emperia Holding S.A. did not issue credit facilities, loans or guarantees to a single entity or its subsidiary such as would result in the aggregate value of guarantees or sureties constituting the equivalent of at least 10% of the Issuer's equity.

### **17. Changes in key management principles**

Emperia Holding S.A. did not introduce any changes to its key management principles in 2016.

### **18. Description of Group structure**

The Group's organisational structure, showing the companies subject to consolidation, is presented in point 6.1 of Emperia Holding S.A.'s financial statements for 2016.

### **19. Effects of changes in the Company's structure**

There were no effects of changes in the Company's structure.

### **20. The management's view as regards meeting guidance published for a given year**

The Company did not publish earnings guidance for 2016.



## **21. Shareholder information**

Information about shareholders with at least 5% of the total number of votes at the general meeting is presented in Note 6.3.15 in Emperia Holding S.A.'s financial statements for 2016.

## **22. Shareholding by management and supervisory personnel**

The holdings of Management Board and Supervisory Board members are presented in note 6.3.15 in Emperia Holding S.A.'s financial statements for 2016.

## **23. Related-party transactions**

Information on the Company's related-party transactions is presented in Note 6.3.42 in Emperia Holding S.A.'s financial statements for 2016.

## **24. Declaration on application of corporate governance principles**

The declaration on application of corporate governance principles is presented in the 2016 report on Emperia Group's operations.

## **25. Management Board declarations**

The Management Board of Emperia Holding S.A. declares that to the best of its knowledge the 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 Company's financial and asset position together with its financial performance, and that the report on Company operations contains a true depiction of the development, achievements and situation of the Company and the Group, including a description of key threats and risks.

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

**Warsaw, 15 March 2017**

**Signatures of all Management Board members:**

Dariusz Kalinowski                      President of the Management Board

.....  
Signature

Cezary Baran                              Vice-President of the Management Board

.....  
Signature

**Signatures of persons responsible for book-keeping**

Elżbieta Świniarska                      Economic Director

.....  
Signature