



**MLP**  
GROUP



**MLP Group S.A.**  
Separate  
**Annual Report**

FOR THE YEAR ENDED 31 DECEMBER 2016

This document is a translation.  
Polish version prevails.

[www.mlp.pl](http://www.mlp.pl)

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## Table of contents:

<b>I. Letter of the President of Management Board to Shareholders</b>	<b>5</b>
<b>II. Statement of the Management Board</b>	<b>7</b>
<b>III. Selected financial data of MLP Group S.A.</b>	<b>8</b>
<b>IV. Separate financial statements of MLP Group S.A. for the year ended 31 December 2016</b>	<b>10</b>
<b>Approval of the separate financial statements</b>	<b>11</b>
<b>Separate statement of profit or loss and other comprehensive income</b>	<b>12</b>
<b>Separate statement of financial position</b>	<b>13</b>
<b>Separate statement of cash flows</b>	<b>14</b>
<b>Separate statement of changes in equity</b>	<b>15</b>
<b>Explanatory information to the separate financial statements</b>	<b>16</b>
<b>1. General information</b>	<b>16</b>
1.1 <i>Information on MLP Group S.A.</i>	16
1.2 <i>Information on the Capital Group</i>	16
1.3 <i>Composition of the Management Board</i>	17
1.4 <i>Composition of the Supervisory Board</i>	17
<b>2. Basis for the preparation of the separate financial statements</b>	<b>17</b>
2.1 <i>Statement of compliance</i>	17
2.2 <i>Status of Standards Approval in the European Union</i>	17
2.2.1 <i>Standards and Interpretations approved by the European Union that are not yet effective as at the end of the reporting period</i>	18
2.2.2 <i>Standards and Interpretations not yet endorsed by the European Union</i>	18
2.3 <i>Basis for preparation of the financial statements</i>	19
2.4 <i>Functional and presentation currency and methods applied to translation of financial data</i>	19
2.4.1 <i>Functional and presentation currency</i>	19
2.4.2 <i>Methods applied to translation of financial data</i>	20
2.5 <i>Use of estimates and judgments</i>	20
<b>3. Significant accounting policies</b>	<b>20</b>
3.1 <i>Foreign currency</i>	20
3.2 <i>Financial instruments</i>	21
3.2.1 <i>Non-derivative financial instruments</i>	21
3.2.2 <i>Held-to-maturity financial instruments</i>	21
3.2.3 <i>Loans and receivables</i>	21
3.2.4 <i>Long-term financial assets in related entities</i>	22

3.3 Equity	22
3.3.1 Share capital	22
3.3.2 Other capital reserves	22
3.3.3 Share premium	22
3.3.4 Reserve capital	22
3.3.5 Retained earnings	22
3.4 Tangible fixed assets	22
3.4.1 Valuation of tangible fixed assets	23
3.4.2 Subsequent expenditures	23
3.4.3 Depreciation	23
3.5 Intangible assets	23
3.6 Impairment of assets	24
3.6.1 Financial assets	24
3.6.2 Non-financial assets	24
3.7 Employee benefits	25
3.8 Cash settled share based payment	25
3.9 Provisions	25
3.10 Bank credits and loans	25
3.11 Revenues	25
3.11.1 Services	25
3.12 Finance income and finance costs	26
3.13 Income tax	26
3.14 Earnings per share	26
<b>4. Financial risk management</b>	<b>26</b>
4.1 Credit risk	27
4.1.1 Trade and other receivables and loans granted	27
4.2 Liquidity risk	27
4.3 Market risk	27
4.3.1 Currency risk	27
4.4 Capital management	28
<b>5. Segment reporting</b>	<b>28</b>
5.1 Information on the key customers of the Company	28
<b>6. Revenues</b>	<b>29</b>
<b>7. Other operating income</b>	<b>29</b>
<b>8. Selling and administrative expenses</b>	<b>29</b>
<b>9. Financial income and costs</b>	<b>30</b>
<b>10. Income tax</b>	<b>30</b>
<b>11. Long-term investments in related parties</b>	<b>32</b>
<b>12. Long-term investments</b>	<b>33</b>
<b>13. Short-term investments</b>	<b>33</b>
<b>14. Deferred tax</b>	<b>34</b>
<b>15. Trade and other receivables</b>	<b>35</b>
<b>16. Cash and cash equivalents</b>	<b>35</b>

<b>17. Equity</b>	<b>36</b>
17.1 Share capital	36
17.2 Other capital reserve	37
<b>18. Earnings per share</b>	<b>37</b>
<b>19. Loans and other debt instruments</b>	<b>37</b>
19.1 Long term liabilities	37
19.2 Short term liabilities	37
19.3 Loans unsecured on the Company's assets	38
<b>20. Payroll liabilities</b>	<b>39</b>
<b>21. Trade and other liabilities</b>	<b>39</b>
<b>22. Financial instruments</b>	<b>39</b>
22.1 Valuation of financial instruments	40
22.1.1 Financial assets	40
22.1.2 Financial liabilities	40
22.2 The nature and extent of risks related to financial instruments	40
22.2.1 Liquidity risk	40
22.2.2 Currency risk	41
22.2.3 Interest rate risk	42
22.2.4 Credit risk	42
<b>23. Contingent liabilities and pledges</b>	<b>43</b>
23.1 Financial and registered pledges on shares	43
23.2 Guarantees	43
23.3 Additional guarantees	43
23.4 Other security	43
<b>24. Related party transactions</b>	<b>44</b>
24.1 Trade and other receivables and payables	44
24.2 Loans granted and received	44
24.3 Revenues and expenses	44
<b>25. Significant litigation and disputes</b>	<b>47</b>
<b>26. Significant events during the period and subsequent events</b>	<b>47</b>
<b>27. Remuneration paid or due to members of management and supervisory bodies of the Company</b>	<b>48</b>
<b>28. Employment structure</b>	<b>49</b>
<b>29. Audit Firm</b>	<b>49</b>
<b>IV. Management Board report on the activities of MLP Group S.A.</b>	<b>50</b>
<b>V. Opinion and report of the independent auditor</b>	<b>96</b>

## I. Letter of the President of Management Board to Shareholders

Dear Shareholders,

On behalf of the Management Board I have the pleasure to present the Annual Report of the MLP Group S.A. for 2016. We have another very successful period behind us, during which we have strengthened the position of the MLP Group in a dynamically developing warehouse market.

### Macroeconomic situation

2016 was characterized by various trends in the global economy, fluctuations in exchange rates and uncertainty in global markets. Despite these conditions, the Polish economy has developed and maintained overall stabilization. In 2016 Gross Domestic Product in our country grew by 2.8% while the unemployment rate was 8.6%. It is estimated that in 2017 the Polish economy may increase the pace and grow by more than 3.5%.

### The warehouse property market

Warehouse market in our country maintains a high growth rate. At the end of 2016 the total supply of modern warehouse space in Poland amounted to over 11.2 million sqm. In 2016 approx. 1.26 million sqm of new warehouse space was delivered to the market, which was even better result than in 2015 (approx. 941 thousand sqm). The last two years have been a record in terms of developers' activity. It is expected that this trend will continue in 2017.

In 2016 there was a slight increase in the vacancy rate up to 5.4% compared to 4.6% at the end of prior year. The main reason was completion of speculative projects by developers.

Rents on prime markets remained at a stable level in 2016. Monthly rents in main Polish regions ranged from 1.90 - 4.80 EUR / sqm.

### 2016 events concerning MLP Group

2016 was a year of continued expansion of our Group. We carried out realisation of investment projects with a total area of 105.9 thousand sqm, out of which 29.6 thousand sqm has been completed. At the end of 2016 the Group had a total of 306.4 thousand sqm of commercial space, out of which 290.9 thousand sqm were leased. That means the vacancy rate amounted to 5%. At the same time over 94.6 thousand sqm of area was in preparation and under construction, out of which over 85% was already covered by lease agreements.

In the past year MLP Group increased the net asset value (NAV) by 4.4% up to PLN 675.7 million. Eliminating the dividend paid in 2016, net assets as at 31 December 2016 were 10.8% higher comparing to 31 December 2015.

In 2016 the Group generated PLN 66.4 million of net profit comparing to PLN 74.6 million in 2015. Consolidated revenues in the past year of PLN 101.0 million were 1% lower than in the previous year. The slight decrease in turnover related to a one-off event concerning the sale of two logistics parks by MLP Group in 2015: MLP Tychy and MLP Bieruń. Excluding their results, revenues generated in 2016 would have been 10% higher than in the prior year. This increase resulted from the fact, that in 2016 the Group completed the realisation of projects and delivered the abovementioned 29.6 thousand sqm of new area.

The Group is currently operating five operational logistics parks located in Poland: MLP Pruszków I, MLP Pruszków II, MLP Poznań, MLP Lublin and MLP Teresin, one logistics park under development MLP Wrocław and two parks in preparatory phase: MLP Czeladź, MLP Gliwice. Based on the development agreement, the Group is also responsible for commercialization of MLP Bieruń logistics park, which was sold in 2015. Moreover, the Group holds reservation agreements for the purchase of new land for planned logistics parks. This results in the fact that the current and potential portfolio of managed real estate by the MLP Group comprises a total of eleven operational logistics parks located in Poland: MLP Pruszków I, MLP Pruszków II, MLP Poznań, MLP Bieruń, MLP Lublin, MLP Poznań Zachód, MLP Teresin, MLP Gliwice, MLP Wrocław, MLP Łódź and MLP Czeladź.

### **MLP Group plans for 2017**

The Group's strategic objective is to constantly increase its warehouse area on the Polish market and to start operating abroad. In 2017, the Management Board of MLP Group plans new investments in the Polish market by expanding its land bank for more logistics parks and starting operations on the German (around Dortmund) and Romanian (around Bucharest) warehouse markets and analyzes offers for land in these countries.

The Management Board is considering the possibility of launching a corporate bond issue program, funds from which would be allocated to purchase real estate in Germany and Romania.

In the Management Board's opinion the Group is in an excellent financial situation, has a very good capital structure enabling the realization of long-term strategic objectives, owns land available for future projects located in prime locations and has a highly qualified management team. All these factors, plus an increase in the macroeconomic indicators in the Polish economy should positively affect the realization of the long-term strategic objectives of the MLP Group.

We would like to thank all our shareholders for their continuing support and confidence. We will do our best for effective and consistent realization of our strategy, reaching the best financial results and constant growth of the MLP Group S.A. Capital Group.

**Radosław T. Krochta**  
*General Director*  
*President of the Management*  
*Board*

## II. Statement of the Management Board

The separate financial statements of MLP Group S.A. for the period from 1 January 2016 to 31 December 2016 and the comparative data for the period from 1 January 2015 to 31 December 2015 were prepared in compliance with the applicable accounting principles, which are disclosed in note 3, and reflect true and fair view of financial position and financial results of the Company. Management Board's Report on the activities of MLP Group S.A. presents a true overview of the development and achievements of the Company and its business situation, including basic risks and exposures.

We declare that the audit firm performing audit of the separate financial statements of MLP Group S.A. for the period of 12 months ended 31 December 2016 - KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa was appointed in compliance with the respective provisions of law. The audit firm and the certified auditors performing the audit met the conditions to issue an independent opinion in compliance with relevant regulations and professional standards.

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**Radosław T. Krochta**

*President of the Management  
Board*

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**Michael Shapiro**

*Vice-President of the  
Management Board*

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**Tomasz Zabost**

*Member of the Management  
Board*

*Pruszków, 14 March 2017*

### III. Selected financial data of MLP Group S.A.

Average exchange rates of Polish zloty against Euro in the period covered by the separate financial statements:

	31 December 2016	31 December 2015
Average exchange rate during the period *	4,3757	4,1848
Average exchange rate at the last day of the period	4,4240	4,2615

\* Arithmetic average of the average exchange rates published on the last day of each month in the reporting period.

Main positions of the separate statement of financial position converted into Euro:

	<i>as at</i>	31 December 2016		31 December 2015	
		PLN thousand	EUR thousand	PLN thousand	EUR thousand
Non-current assets		208 730	47 181	210 954	49 502
Current assets		6 430	1 453	32 016	7 513
<b>Total assets</b>		<b>215 160</b>	<b>48 634</b>	<b>242 970</b>	<b>57 015</b>
Long-term liabilities		64 096	14 488	40 285	9 453
Short-term liabilities		3 385	765	13 765	3 230
Equity, including:		147 679	33 381	188 920	44 332
Share capital		4 529	1 024	4 529	1 063
<b>Total equity and liabilities</b>		<b>215 160</b>	<b>48 634</b>	<b>242 970</b>	<b>57 015</b>
Number of shares (in units)		18 113 255	18 113 255	18 113 255	18 113 255
Book value and diluted book value per share (in PLN)		8,15	1,84	10,43	2,45

To translate the separate statement of financial position the average exchange rate published by the National Bank of Poland (NBP) on the last day of the reporting period was used.

The main positions of the separate statement of profit or loss and other comprehensive income converted into Euro:

	<i>for the year ended</i>	31 December 2016		31 December 2015	
		PLN thousand	EUR thousand	PLN thousand	EUR thousand
Revenues		8 225	1 880	8 829	2 110
Selling and administrative expenses		(9 261)	(2 116)	(7 875)	(1 882)
Operating profit/(loss)		(392)	(90)	1 363	326
Profit before taxation		551	126	3 448	824
Net profit		419	96	6 802	1 625
<b>Total comprehensive income</b>		<b>419</b>	<b>96</b>	<b>6 802</b>	<b>1 625</b>

To translate the separate statement of profit or loss and other comprehensive income an average Euro exchange rate calculated as the arithmetic average of the exchange rates published on the last day of each month in the reporting period by the National Bank of Poland (NBP) was used.

The main positions of the separate statement of cash flows converted into Euro:



<i>for the year ended</i>	<b>31 December 2016</b>		<b>31 December 2015</b>	
	<b>PLN</b>	<b>EUR</b>	<b>PLN</b>	<b>EUR</b>
	<b>thousand</b>	<b>thousand</b>	<b>thousand</b>	<b>thousand</b>
Net cash flow from operating activities	19	4	(2 109)	(504)
Cash flow from investing activities	23 495	5 369	(14 905)	(3 562)
Cash flow from financing activities	(31 661)	(7 236)	7 055	1 686
<b>Total cash flow</b>	<b>(8 147)</b>	<b>(1 862)</b>	<b>(9 959)</b>	<b>(2 380)</b>

To translate the separate statement of cash flows an average Euro exchange rate calculated as the arithmetic average of the average exchange rates published on the last day of each month in the reporting period by the National Bank of Poland (NBP) was used.

<i>as at</i>	<b>31 December 2016</b>		<b>31 December 2015</b>	
	<b>PLN</b>	<b>EUR</b>	<b>PLN</b>	<b>EUR</b>
	<b>thousand</b>	<b>thousand</b>	<b>thousand</b>	<b>thousand</b>
Cash at the beginning of the period	10 252	2 406	20 211	4 742
Cash at the end of the period	2 105	476	10 252	2 406

To translate the above data of the separate statement of cash flows the following exchange rates were used:

- for the position "Cash at the end of the period" - the average exchange rate published by the National Bank of Poland (NBP) on the last day of the reporting period
- for the position "Cash at the beginning of the period" - the average exchange rate published by the National Bank of Poland (NBP) on the last day of the period preceding the reporting period

Euro exchange rate on the last day of the reporting period ended 31 December 2014 was 4.2623 EUR/PLN.



# **MLP Group S.A.**

**Separate financial statements**

**for the year ended 31 December 2016**  
*prepared in accordance with IFRS EU*

## Approval of the separate financial statements

On 14 March 2017, the Management Board of MLP Group S.A. approved the separate financial statements of MLP Group S.A. ("Financial Statements") for the period from 1 January 2016 to 31 December 2016.

The separate financial statements for the period from 1 January 2016 to 31 December 2016 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS EU"). Information is presented in this report in the following sequence:

1. Separate statement of profit or loss and other comprehensive income for the period from 1 January 2016 to 31 December 2016, with a net profit of PLN 419 thousand.
2. Separate statement of financial position as at 31 December 2016, with total assets and total liabilities and equity of PLN 215.160 thousand.
3. Separate statement of cash flows for the period from 1 January 2016 to 31 December 2016, with a net cash decrease of PLN 8.147 thousand.
4. Separate statement of changes in equity for the period from 1 January 2016 to 31 December 2016, with an equity decrease of PLN 41.241 thousand.
5. Explanatory information to the separate financial statements.

The separate financial statements have been prepared in PLN thousand, unless otherwise stated.

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**Radosław T. Krochta**  
*President of the Management  
Board*

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**Michael Shapiro**  
*Vice-President of the  
Management Board*

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**Tomasz Zabost**  
*Member of the Management  
Board*

Pruszków, 14 March 2017

## Separate statement of profit or loss and other comprehensive income

<i>for the year ended 31 December</i>	<b>Note</b>	<b>2016</b>	<b>2015</b>
Revenues	6	8 225	8 829
Other operating income	7	755	516
Other operating costs		(111)	(107)
Selling and administrative expenses	8	(9 261)	(7 875)
<b>Operating profit/(loss)</b>		<b>(392)</b>	<b>1 363</b>
Financial income	9	2 296	2 907
Financial costs	9	(1 353)	(822)
<b>Net financial income</b>		<b>943</b>	<b>2 085</b>
<b>Profit before taxation</b>		<b>551</b>	<b>3 448</b>
Corporate income tax	10	(132)	3 354
<b>Net profit</b>		<b>419</b>	<b>6 802</b>
<b>Total comprehensive income</b>		<b>419</b>	<b>6 802</b>
<b>Profit per share:</b>			
- Basic and diluted (in PLN) profit for the year attributable to the ordinary shareholders of the Parent Company	18	0,02	0,38

## Separate statement of financial position

	<i>as at 31 December</i>	<b>Note</b>	<b>2016</b>	<b>2015</b>
<b>Non-current assets</b>				
Intangible assets			21	5
Tangible fixed assets			153	13
Long-term financial assets in related parties		11	123 224	122 209
Long-term investments		12	79 408	82 674
Deferred tax assets		14	5 873	6 005
Other long-term investments			51	48
<b>Total non-current assets</b>			<b>208 730</b>	<b>210 954</b>
<b>Current assets</b>				
Short-term investments		13	1 068	19 132
Corporate income tax receivables		15	742	13
Trade and other receivables		15	2 515	2 619
Cash and cash equivalents		16	2 105	10 252
<b>Total current assets</b>			<b>6 430</b>	<b>32 016</b>
<b>TOTAL ASSETS</b>			<b>215 160</b>	<b>242 970</b>
<b>Equity</b>				
		17		
Share capital			4 529	4 529
Other capital reserve			4 194	4 194
Share premium			71 121	71 121
Reserve capital			64 485	64 485
Retained earnings			3 350	44 591
<b>Total equity</b>			<b>147 679</b>	<b>188 920</b>
<b>Long-term liabilities</b>				
Loans and other debt instruments		19	64 096	40 285
<b>Total long-term liabilities</b>			<b>64 096</b>	<b>40 285</b>
<b>Short-term liabilities</b>				
Loans and other debt instruments		19	-	11 096
Payroll liabilities		20	2 205	1 917
Trade and other liabilities		21	1 180	752
<b>Total short-term liabilities</b>			<b>3 385</b>	<b>13 765</b>
<b>Total liabilities</b>			<b>67 481</b>	<b>54 050</b>
<b>TOTAL EQUITY AND LIABILITIES</b>			<b>215 160</b>	<b>242 970</b>

## Separate statement of cash flows

<i>for the year ended 31 December</i>	<b>Note</b>	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities</b>			
Profit before taxation		551	3 448
<i>Adjustments for:</i>			
Depreciation and amortization		29	48
Net interest		(1 123)	(1 587)
Foreign exchange losses		475	(604)
Other		(4)	(47)
Changes in trade and other receivables		104	(982)
Changes in short-term trade and other liabilities		716	(2 036)
<b>Cash flow generated from operating activities</b>		<b>748</b>	<b>(1 760)</b>
Income tax paid		(729)	(349)
<b>Net cash flow from operating activities</b>		<b>19</b>	<b>(2 109)</b>
<b>Cash flows from investing activities</b>			
Expenditure on financial assets		(1 015)	(1 067)
Repayments of loans granted		26 073	32 288
Interest received		317	1
Purchase of investment property, tangible fixed assets and intangible assets		(185)	(40)
Loans granted		(1 695)	(46 087)
<b>Cash flow from investing activities</b>		<b>23 495</b>	<b>(14 905)</b>
<b>Cash flows from financing activities</b>			
Proceeds from loans received		10 000	10 970
Repayment of loans		-	(3 915)
Dividends and other payments to shareholders		(41 660)	-
Interest paid		(1)	-
<b>Cash flow from financing activities</b>		<b>(31 661)</b>	<b>7 055</b>
<b>Total cash flow</b>		<b>(8 147)</b>	<b>(9 959)</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>10 252</b>	<b>20 211</b>
<b>Cash and cash equivalents at the end of the period</b>	16	<b>2 105</b>	<b>10 252</b>

## Separate statement of changes in equity

	Share capital	Other capital reserve	Share premium	Reserve capital	Retained earnings	Total equity
<b>Equity as at 1 January 2015</b>	<b>4 529</b>	<b>4 194</b>	<b>71 121</b>	<b>64 485</b>	<b>37 789</b>	<b>182 118</b>
<b><u>Comprehensive income</u></b>						
Financial result	-	-	-	-	6 802	<b>6 802</b>
<b>Total comprehensive income for the year ended 31 December 2015</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6 802</b>	<b>6 802</b>
<b>Equity as at 31 December 2015</b>	<b>4 529</b>	<b>4 194</b>	<b>71 121</b>	<b>64 485</b>	<b>44 591</b>	<b>188 920</b>
<b><u>Comprehensive income</u></b>						
Financial result	-	-	-	-	419	<b>419</b>
<b>Total comprehensive income for the year ended 31 December 2016</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>419</b>	<b>419</b>
Dividends paid	-	-	-	-	(41 660)	<b>(41 660)</b>
<b>Equity as at 31 December 2016</b>	<b>4 529</b>	<b>4 194</b>	<b>71 121</b>	<b>64 485</b>	<b>3 350</b>	<b>147 679</b>

## Explanatory information to the separate financial statements

### 1. General information

#### 1. 1 *Information on MLP Group S.A.*

MLP Group S.A. ("Company", "Entity", "Issuer") is a joint-stock publicly-traded company registered in Poland. The Company headquarters are located in Pruszków, 3 Maja 8 Street.

The Company was established as a result of a transformation of the state company Zakłady Naprawcze Taboru Kolejowego im. Bohaterów Warszawy seated in Pruszków into a joint-stock company fully owned by the state. The notarial deed of transformation was drawn up on 18 February 1995. The company operates under the name of MLP Group S.A. by virtue of resolution of the Company's General Meeting of 27 June 2007.

Currently, the Company is registered in the National Court Register in the District Court for the Capital City of Warsaw, XIV Commercial Department under the National Court Register number of 000053299.

The core business activities of the Company include: management, acquisition and sale of real estate, rental of real estate, management of residential and non-residential properties, construction works related to construction of buildings and other construction (see note 5). The prevailing type of the Company's business is characterized by the 7032Z symbol of the Statistical Classification of Products by Activity of the European Economic Community, which refers to property management services.

The Company's financial year is defined as the calendar year.

The duration of the Company is unlimited.

#### 1. 2 *Information on the Capital Group*

The parent company of the Company is CAJAMARCA HOLLAND B.V. that is registered in the Netherlands, 2 Martinus Nijhofflaan, 2624 ES Delft.

The ultimate parent company is Israel Land Development Company Ltd., registered in Tel Aviv, Israel ("ILDC"). ILDC shares are listed on the Stock Exchange in Tel Aviv.

As at the end of the reporting period, MLP Group S.A. is the parent company of 24 subsidiaries: MLP Pruszków I Sp. z o.o., MLP Pruszków II Sp. z o.o., MLP Pruszków III Sp. z o.o., MLP Pruszków IV Sp. z o.o., MLP Moszna I Sp. z o.o., MLP Spółka z ograniczoną odpowiedzialnością SKA, MLP Energy Sp. z o.o., MLP Poznań Sp. z o.o., MLP Lublin Sp. z o.o., MLP Poznań II Sp. z o.o., MLP Bieruń Sp. z o.o., MLP Bieruń I Sp. z o.o., MLP Sp. z o.o., MLP Property Sp. z o.o., MLP Teresin Sp. z o.o., MLP Poznań West Sp. z o.o., MLP Fin Sp. z o.o., Lokafoop 201 Sp. z o.o., Lokafoop 201 Spółka z ograniczoną odpowiedzialnością SKA, MLP Wrocław Sp. z o.o., MLP Gliwice Sp. z o.o., MLP Łódź Sp. z o.o., MLP Czeladź Sp. z o.o., MLP Temp Sp. z o.o.

Additional information on the subsidiaries is included in note 11.



### **1. 3 Composition of the Management Board**

As at the date of preparation of the separate financial statements, the composition of the Management Board is as follows:

- Radosław T. Krochta - President of the Management Board
- Michael Shapiro - Vice-President of the Management Board
- Tomasz Zabost - Member of the Management Board

On 9 June 2016 pursuant to the resolution of Supervisory Board, Mr Radosław Krochta was appointed as President of the Management Board of the Company and Mr Michael Shapiro was appointed as Vice President of the Management Board of the Company.

### **1. 4 Composition of the Supervisory Board**

As at the date of preparation of the separate financial statements, the composition of the Supervisory Board is as follows:

- Shimshon Marfogel - President of the Supervisory Board
- Yosef Zvi Meir - Member of the Supervisory Board
- Eytan Levy - Vice-President of the Supervisory Board
- Guy Shapira - Member of the Supervisory Board
- Jacek Tucharz - Member of the Supervisory Board
- Maciej Matusiak - Member of the Supervisory Board

## **2. Basis for the preparation of the separate financial statements**

### **2. 1 Statement of compliance**

MLP Group S.A. prepared separate financial statements in accordance with the accounting principles issued by the International Accounting Standards Board approved by the European Union, defined as the International Financial Reporting Standards ("IFRS EU"). The Company has applied all Standards and Interpretations adopted by the European Union except Standards and Interpretations listed below that are awaiting approval of the European Union and the Standards and Interpretations that have been approved by the European Union, but not yet effective.

### **2. 2 Status of Standards Approval in the European Union**

A number of new standards, amendments to standards and interpretations is not yet mandatorily effective for annual periods ending on 31 December 2016 and has not been applied in preparation of the separate financial statements. Impact of new standards on the separate financial statements was presented below.

**2. 2. 1 Standards and Interpretations approved by the European Union that are not yet effective as at the end of the reporting period**

The Company plans to adopt the following new, but not yet legally binding as at the date of approval of the financial statements for publication, standards and changes to standards and interpretations of IFRS published by International Accounting Standards Board when they become effective.

Standards and interpretations approved by the European Union, which have not come into force for annual periods yet	Possible impact on the financial statements	Effective date for periods starting on or after
<b>IFRS 15 Revenue from Contracts with Customers</b>	It is expected that change of the IFRS will have no significant impact on the separate financial statements of the Company.	1 January 2018
<b>IFRS 9 Financial Instruments (2014)</b>	It is expected that at the time of initial application, the new standard will have an impact on the separate financial statements. However, until the first application of this standard, the Company is not able to carry out any analysis of its impact on the separate financial statements. The Company has not yet decided on the date of initial application of the standard.	1 January 2018

**2. 2. 2 Standards and Interpretations not yet endorsed by the European Union**

Standards and interpretations approved by the European Union	Possible impact on the financial statements	Effective date
<b>IFRS 14 Regulatory Defferal Accounts</b>	no impact	1 January 2016 <sup>1)</sup>
<b>Sales or contributions of assets between an investor and its associate/joint venture (Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures)</b>	no impact	1 January 2016
<b>IFRS 16 Leases</b>	It is expected that change of the standard will have no significant impact on the separate financial statements of the Company.	1 January 2019
<b>Recognition of deferred tax assets for unrealised losses (Amendments to IAS 12 Income Taxes )</b>	no significant impact	1 January 2017

Standards and interpretations approved by the European Union	Possible impact on the financial statements	Effective date
<b>Disclosures Initiative (Amendments to IAS 7 <i>Statement of Cash Flows</i> )</b>	no significant impact	1 January 2017
<b>Amendments to IFRS 15 <i>Revenue from Contracts with Customers</i></b>	It is expected that change of the standard will have no significant impact on the separate financial statements of the Company.	1 January 2018
<b>Amendments to IFRS 2 (<i>Share-based Payment</i> )</b>	The Company has not yet prepared an analysis of the impact of the new standard on its financial situation and results from operations.	1 January 2018
<b>Amendments to International Financial Reporting Standards 2014-2016, including:</b> - IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> - IFRS 7 <i>Financial Instruments: Disclosures</i> - IAS 19 <i>Employee Benefits</i> - IFRS 12 <i>Disclosure of Interests in Other Entities</i> - IAS 28 <i>Investments in Associates and Joint Ventures</i>	no significant impact	1 January 2018 <sup>2)</sup>
<b>IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i></b>	no significant impact	1 January 2018
<b>Amendments to IAS 40 <i>Investment Property</i></b>	no impact	1 January 2018

1) The European Commission has decided not to approve of this interim standard in anticipation of the actual standard.

2) except for the changes in IFRS 12 applicable for annual periods beginning on 1 January 2017 or later

## **2. 3 Basis for preparation of the financial statements**

The separate financial statements has been prepared assuming that the Company will continue to operate as a going concern in the foreseeable future and in conviction that there is no evidence indicating that the Company will not be able to continue its operations as a going concern.

The separate financial statements have been prepared on the historical cost basis except for cash settled share-based payments, which are measured at fair value.

Fair value measurement methods are presented in note 3.

## **2. 4 Functional and presentation currency and methods applied to translation of financial data**

### **2. 4. 1 Functional and presentation currency**

Data in the separate financial statements is presented in Polish zloty rounded to the nearest thousand. Polish zloty is the Company's functional currency and the presentation currency of the separate financial statements.

**2. 4. 2 Methods applied to translation of financial data**

To translate positions of the separate statement of financial position denominated in foreign currencies, the following exchange rates were used (in PLN):

***Separate statement of financial position:***

	<i>as at 31 December</i>	<b>2016</b>	<b>2015</b>
EUR		4,4240	4,2615
USD		4,1793	3,9011

**2. 5 Use of estimates and judgments**

The preparation of financial statements in conformity with IFRS EU requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Estimates and assumptions are based on experience and other reasonable factors and their results provide the basis for the carrying amount of assets and liabilities which does not result directly from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized either in the period, in which the estimates are revised or in current and in any future periods if the revision affects both current and future periods. Significant estimates are based on valuation performed by independent experts.

**3. Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in the financial statements.

**3. 1 Foreign currency**

*Foreign currency transactions*

Transactions in foreign currencies are translated into the functional currency by applying the spot exchange rate at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated using the closing rate of the currency at this day. Non-monetary assets and liabilities in foreign currencies that are measured at historical costs or purchase price are translated using the exchange rate at the date of transaction. Non-monetary items in foreign currencies that are measured at fair value are translated using the exchange rate at the date when the fair value is measured.

### **3. 2 Financial instruments**

#### **3. 2.1 Non-derivative financial instruments**

Non-derivative financial instruments include equity instruments, debt securities, trade and other receivables, cash and cash equivalents, credits and loans and trade and other liabilities.

Non-derivative financial instruments - with the exception of investments measured at fair value through profit or loss - are initially measured at fair value increased by transaction costs (with exceptions mentioned below).

The Company initially recognizes financial assets on the trade date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Standardized transactions are recognized on the day of transaction, i.e. on the day of commitment to buy or sell. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Cash and cash equivalents presented in the separate statement of financial position comprise of cash in hand and bank deposits with maturities of up to 3 months from the end of the reporting period. The balance of cash and cash equivalents presented in the separate statement of cash flows comprises the above-mentioned cash and cash equivalents less bank overdrafts that form an integral part of the Company's cash management system.

#### **3. 2.2 Held-to-maturity financial instruments**

Held-to-maturity financial assets comprise of financial instruments other than derivatives that have defined (or possible to define) payments terms and defined maturity dates and the Company has the positive intent and ability to hold them to maturity, excluding financial instruments that are classified as financial assets at fair value through profit or loss, available-for-sale financial assets or loans and receivables.

Current assets comprise assets which will be sold within twelve months from the end of the reporting period.

Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method.

#### **3. 2.3 Loans and receivables**

Loans and receivables are financial assets, other than derivative instruments, with fixed or determinable payments that are not quoted in an active market. Such assets are recognized as a result of cash expenditure, delivery of goods or rendering of services for a debtor without intent to classify these receivables as financial assets measured at fair value through profit or loss. They are recognized as current assets except for those with maturities exceeding twelve months from the reporting date.

Subsequent to initial recognition, assets classified as loans and receivables and other receivables are measured at amortized cost using the effective interest method, less any impairment losses. Revaluation includes the time and probability of the payment.

### **3. 2. 4 Long-term financial assets in related entities**

They include shares in related entities as specific contracts, based on which an entity has a right to assets of the other company.

Shares in related entities are measured at acquisition cost less impairment allowances.

### **3. 3. Equity**

Equity is recorded in accounting books by type, in accordance with legal regulations and the Company's Articles of Association.

#### **3. 3. 1 Share capital**

Share capital is recorded in the amount stipulated in the Company's Articles of Association and registered in the National Court Register.

Preference shares are classified as equity if they are non-redeemable, or are redeemable only at the Company's request, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity.

Preference share capital is classified as a liability if it is redeemable on a specific date or on shareholder's request or if the dividend payments are not discretionary.

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable transaction costs, is recognized as a deduction from equity. The repurchased shares are presented as a separate position in equity as a negative value.

#### **3. 3. 2 Other capital reserves**

Other capital reserves is the capital designed by the Company's Articles of Association to cover special losses or expenditures.

#### **3. 3. 3 Share premium**

Share premium is created by the surplus of the issuance value in excess of the par value of shares. It is presented as a separate position within equity. Issuance costs of shares and option decrease the premium.

#### **3. 3. 4 Reserve capital**

Reserve capital encompasses the capital comprised of the distribution of earnings from previous years. It also includes amounts transferred in accordance with applicable regulations.

#### **3. 3. 5 Retained earnings**

Retained earnings include current period result and undivided profit from previous years.

### **3. 4. Tangible fixed assets**

Tangible fixed assets consist of property, plant and equipment, investments in third party's tangible assets, assets under construction and assets under finance lease (leases in terms of which the Company assumes substantially all of the risks and rewards of ownership, and the expected duration of their use exceeds one year).

**3. 4. 1 Valuation of tangible fixed assets**

Tangible fixed assets are measured at cost i.e. either at acquisition price or construction cost less accumulated depreciation and any impairment losses.

The cost of an item includes the purchase price of an asset and costs directly attributable to the purchase of property, plant and equipment and bringing it into use, including the costs of transportation, loading, unloading and storage. Discounts, rebates and other similar returns decrease the purchase price of property, plant and equipment. The construction cost of property, plant and equipment and tangible fixed assets under construction includes all costs incurred by the Company during its construction, installation, adjustment and improvement and interest costs of loans taken out to finance the construction of fixed assets which are directly attributable to the construction of fixed assets, until the date of bringing such an asset into use (or until the end of the reporting period if the asset is not yet available for use). The construction costs also include, in case where this is required, the initial estimate of the costs of dismantling and removing items of property, plant and equipment and restoring the original site. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

In case where a specific item of property, plant and equipment consists of distinct and significant components with different useful lives, they are accounted for as separate fixed assets.

**3. 4. 2 Subsequent expenditures**

Subsequent expenditure is capitalized only when its value can be reliably estimated and it is probable that the future economic benefits associated with the expenditure will flow to the Company. Ongoing repairs and maintenance is expensed as incurred.

**3. 4. 3 Depreciation**

Items of property, plant and equipment, or their major components are depreciated on a straight-line basis over the estimated useful life, allowing for the net selling price of an asset (residual value). The basis for calculating depreciation is the purchase price or construction cost less residual value, on the basis of the useful life of an asset adopted and periodically verified by the Company. Items of property, plant and equipment are depreciated from the date when they are installed and are ready for use, until the earlier of the following dates: the day a fixed asset is classified as held for sale, is removed from the separate statements of financial position, the residual value of an asset exceeds its carrying amount or the asset has already been fully depreciated.

The estimated useful lives for items of property, plant and equipment are as follows:

Machinery	3 - 16 years
Vehicles	5 - 7 years
Furniture and equipment	1 - 5 years

Adequacy of useful lives, depreciation methods and residual values of property, plant and equipment (if not negligible) are verified periodically by the Company.

**3. 5. Intangible assets**

An intangible asset is an identifiable non-monetary asset without physical substance which value has been determined in a reliable manner (as purchase price or cost of construction), which will result in the entity deriving economic benefits in the future.

Intangible assets that are acquired by the Company are measured at cost less accumulated amortization and accumulated impairment losses.

Intangible assets are amortized on a straight-line basis over their estimated useful lives (unless not determined), from the date that they are available for use. Intangible assets are amortized to the earlier of the dates: when the asset is classified as available for sale, is removed from the balance sheet, when its residual value is higher than the carrying amount or when it is completely amortized.

### **3. 6. Impairment of assets**

#### **3. 6. 1 Financial assets**

A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, that had a negative impact on the estimated future cash flows from that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses on available-for-sale financial assets are calculated in relation to their current fair value.

The carrying amounts of individual financial assets of significant value are reviewed at each reporting date to determine whether there is any indication of impairment. Other financial assets are reviewed collectively, grouped by credit risk levels.

Impairment losses are recognized in profit or loss. If the fair value of an impaired available-for-sale financial assets was recognized in other comprehensive income, cumulated loss recognized previously in other comprehensive income is reclassified from equity to profit or loss.

Impairment losses are reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the recognition of an impairment loss. Impairment losses in respect of investments in equity instruments classified as held for sale are recognized in profit or loss. If the fair value of debt instruments classified as held for sale increases and the increase can be objectively related to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the amount of the reversal recognized in profit or loss.

#### **3. 6. 2 Non-financial assets**

The carrying amounts of the Company's non-financial assets, other than biological assets, investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill, indefinite-lived intangible assets and intangible assets which are not available for use are tested annually for impairment.

Impairment loss is recognized if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing of assets that do not generate independent cash flows, value in use is estimated for the smallest identifiable cash generating units to which those assets are allocated.



An impairment loss in respect of goodwill is not reversed. In respect of other assets, at the end of each reporting date, it is assessed if there is any indication of reversal of impairment. An impairment loss is reversed (if there are changes in estimates concerning recoverable amount) only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

### **3. 7. Employee benefits**

#### *Defined benefit plans*

The Company is obliged to collect and pay contributions for pension benefit for employee. According to IAS 19 a defined benefit national plan is a post-employment benefit plan. Therefore, a liability related to each period is recognized on the base of amounts contributed for the year.

### **3. 8. Cash settled share based payment**

Employees are entitled to annual bonuses in form of cash settled share based payments.

The Company accounts for those transactions in compliance with IFRS 2. Cash settled share based payments are measured at fair value.

The fair value of the amount payable to employees in respect of share appreciation right, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the period that the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as personnel expenses in profit or loss.

### **3. 9. Provisions**

A provision is recognized if, as a result of a past event, the Company has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If there is a significant influence of time value of money, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

### **3. 10. Bank credits and loans**

Initially, bank credits and loans are recognized at acquisition cost corresponding to the fair value of the instrument. In subsequent periods, credit and loans are measured at amortized cost, using the effective interest method, which includes costs associated with obtaining the loan and the premium or discount from settling obligations.

### **3. 11. Revenues**

#### **3. 11. 1 Services**

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The result of the transaction is assessed as reliable if all of the following conditions are met: the amount of revenue can be reliably measured and it is probable that the Company obtains economic benefits due to the transaction, the stage of completion at the reporting date can be specified in a reliable manner and costs incurred due to the transaction as well as costs of completion of the transaction can be measured in a reliable manner.

### **3. 12. Finance income and finance costs**

Finance income comprises interest income on funds invested by the Company, dividend income, gains on the disposal of available-for-sale financial assets, fair value gains on financial assets at fair value through profit or loss, gains from foreign exchange differences and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Company's right to receive payment is established.

Finance costs comprise interest expense on borrowings, losses from foreign exchange differences, impairment losses recognized on financial assets. Interest cost is recognized as it is incurred in profit or loss, using the effective interest method.

### **3. 13. Income tax**

Current tax calculation is based on current year result in accordance with tax laws.

Tax charge recognized in profit or loss comprises current and deferred tax. Current tax and deferred tax is recognized in profit or loss except to the extent that it relates to items recognized in other comprehensive income. Then it is recognized in other comprehensive income.

Current tax is the expected tax payable on the taxable income, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet liability method in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for: taxable temporary differences arising on goodwill, depreciation of which is not a deductible cost; temporary differences on the initial recognition of assets or liabilities and that affects neither accounting nor taxable profit or loss; temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that they control is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized to the extent it is probable that future taxable income will be available against which the deferred tax asset can be utilized. Deferred tax assets are reduced to the extent that it is probable that taxable income will be insufficient for the temporary differences to be partially or fully realized. Such reductions are adjusted upwards, insofar as obtaining sufficient taxable profits becomes probable.

### **3. 14. Earnings per share**

The Company presents basic and diluted earnings per share for ordinary shares. Basic earnings per share are calculated by dividing the profit or loss attributable to holders of ordinary shares by the weighted average number of ordinary shares in the period. Diluted earnings per share as opposed to the ratio described above take into account apart from profit attributable to holders of ordinary shares and the average number of ordinary shares also the convertible bonds and stock options granted to employees.

## **4. Financial risk management**

Financial instruments held by the Company are related to following risks:

- Credit risk,
- Liquidity risk,
- Market risk.

The note presents information about the Company's exposure to a particular type of risk, objectives, policies and procedures adopted by the Company to manage the particular type of risk and the method of capital management. The required financial data is presented further in the separate financial statements.

The Management Board has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through training of its employees and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

#### **4. 1 Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Company's receivables from customers and cash and cash equivalents.

##### **4. 1. 1 Trade and other receivables and loans granted**

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Structure of the customers, including the default risk of the industry in which customers operate has less significant influence on credit risk.

The Company's credit risk from loans granted concerns mostly receivables from related parties. At the moment there are no indicators that related parties will not be able to repay the loans granted.

#### **4. 2 Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities on maturity date.

The Company's approach to managing liquidity is to ensure, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unnecessary losses or risking damage to the Company's reputation.

#### **4. 3 Market risk**

Market risk is the risk that changes of market prices, such as exchange rates and interest rates will affect the Company's income or the value of its financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing return.

##### **4. 3. 1 Currency risk**

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the Company's functional currency, primarily Euro (EUR).

The Company draws loans denominated in EUR. To minimize the currency risk, the Company also has receivables from loans granted in EUR.

#### **4. 4 Capital management**

The Management Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Management Board monitors the return on capital. It is defined as operating profit divided by equity, excluding non-buying / non-redemption preference shares and non controlling interest. The Management Board monitors as well as the level of dividends to ordinary shareholders.

There were no changes in Company's approach to capital management in reporting period.

The Company is not subject to externally imposed capital requirements.

#### **5. Segment reporting**

Segment of business activity is the isolated part of the company, which role is to provide specific products and services (line of business) or delivering products or services in defined business environment (geographical segmentation), which is a subject to other risks and draws other profits than the rest of segments.

The primary and sole business of MLP Group S.A. is the management of the logistic properties. The company operates in Poland. In accordance to property location criteria, the company distinguish one operating segment - Poland. The criteria of assets location correspond with the criteria of clients' location. Operating segments are the same as the geographical segments. Because the Company operates only in one segment, all information concerning operations in this segment have been included in statement of profit and loss and other comprehensive income and in statement of financial position.

##### **5. 1. Information on the key customers of the Company**

The share of the key customers in the Company's revenues are as follows:

	<i>for the year ended 31 December</i>	<b>2016</b>	<b>2015</b>
MLP Pruszków I Sp. z o.o.		74%	68%
MLP Pruszków II Sp. z o.o.		4%	2%
MLP Pruszków IV Sp. z o.o.		4%	1%
MLP Spółka z ograniczoną odpowiedzialnością SKA		0%	12%

## 6. Revenues

	<i>for the year ended 31 December</i>	<b>2016</b>	<b>2015</b>
Real estate management		3 393	3 252
Consulting services		4 017	4 238
Reinvoiced services		785	1 315
Other revenues		30	24
<b>Total revenues</b>		<b>8 225</b>	<b>8 829</b>
<i>including revenues from related parties</i>		<i>8 112</i>	<i>8 805</i>

Details of revenues from related parties are disclosed in note 24.3.

## 7. Other operating income

	<i>for the year ended 31 December</i>	<b>2016</b>	<b>2015</b>
Revenues from sale of fixed assets		10	-
Reinvoiced insurance costs		41	52
Reversal of provisions		535	353
Other		169	111
<b>Total other operating income</b>		<b>755</b>	<b>516</b>

## 8. Selling and administrative expenses

	<i>for the year ended 31 December</i>	<b>2016</b>	<b>2015</b>
Depreciation and amortization		(29)	(48)
Materials and energy		(173)	(126)
External services		(4 340)	(4 190)
Taxes and charges		(75)	(76)
Payroll		(2 089)	(3 013)
Social security and other employee benefits		(277)	(236)
Other expenditures		(2 278)	(186)
<b>Total selling and administrative expenses</b>		<b>(9 261)</b>	<b>(7 875)</b>

Selling and administrative expenses for the financial year ended 31 December 2016 amounted to PLN 9,261 thousand. The above mentioned costs incurred by the Company mainly relate to expenses concerning the service and maintenance of revenue-generating investment property, owned by subsidiaries and consulting services. The company recovers the specified amounts by charging these companies for property management.

## 9. Financial income and costs

	<i>for the year ended 31 December</i>	<b>2016</b>	<b>2015</b>
Interest on loans granted to the related entities		2 166	2 373
Interest income on bank deposits		130	534
<b>Total financial income</b>		<b>2 296</b>	<b>2 907</b>
Interest expenses on loans from related entities		(1 043)	(786)
Other interest		(1)	(8)
Foreign exchange differences net		(309)	(28)
<b>Total financial costs</b>		<b>(1 353)</b>	<b>(822)</b>

Exchange differences are mainly the result of the balance sheet date valuation of liabilities and receivables of loans, which are denominated in Euro.

Details of financial income and costs from related parties are disclosed in note 24.3.

## 10. Income tax

	<i>for the year ended 31 December</i>	<b>2016</b>	<b>2015</b>
Origination / reversal of temporary differences		132	(3 354)
<b>Income tax</b>		<b>132</b>	<b>(3 354)</b>

### Effective tax rate

	<i>for the year ended 31 December</i>	<b>2016</b>	<b>2015</b>
<b>Profit before taxation</b>		<b>551</b>	<b>3 448</b>
Current income tax on the basis of the enacted tax rate (19%)		(105)	(655)
Difference in value of shares sold		-	3 977
Non-taxable income		-	32
Non-tax deductible costs		(27)	-
<b>Current income tax</b>		<b>(132)</b>	<b>3 354</b>

### The calculation of corporate income tax

	<i>for the year ended 31 December</i>	<b>2016</b>	<b>2015</b>
<b>Profit before taxation</b>		<b>551</b>	<b>3 448</b>
<b>Non-tax deductible costs:</b>			
Interest accrued on loans received		1 043	786
Provision for audit of financial statements		123	145
Foreign exchange losses on valuation		7 966	6 353
Provision for remuneration of Supervisory Board and Management Board		206	46
Employee benefits provision		2 048	1 577
Other		236	165
		<b>11 622</b>	<b>9 072</b>

<i>for the year ended 31 December</i>	<b>2016</b>	<b>2015</b>
<b>Costs increasing tax costs</b>		
Reversal of foreign exchange losses on valuation	6 353	6 893
Reversal of provision for audit of financial statements	145	135
Payment of employee benefits	1 308	822
Costs of sold MLP FIN Spółka z ograniczoną odpowiedzialnością Sp.K. shares	-	25 005
Reversal of provision for remuneration of Supervisory Board and Management Board	46	45
	<b>7 852</b>	<b>32 900</b>
<b>Amounts that increase the tax base</b>		
Reversal of foreign exchange gains	615	502
Loan interest repayment	299	1
Received interest from bank deposits	-	788
	<b>914</b>	<b>1 291</b>
<b>Non-taxable revenues</b>		
Foreign exchange gains on valuation	1 652	687
Accrued but not paid interest on loans	2 148	2 374
Other	-	7
Reversal of overstated provision for liabilities	535	353
	<b>4 335</b>	<b>3 421</b>
<b>Income/(Loss)</b>	<b>900</b>	<b>(22 510)</b>
<b>Deductions</b>		
Donation to Happy Kids Foundation	(6)	-
<b>Taxable income/(loss)</b>	<b>894</b>	<b>(22 510)</b>
Loss from previous years	(894)	-
Tax base	-	<b>(22 510)</b>
<b>Income tax</b>	<b>-</b>	<b>-</b>

The provisions concerning value added tax, corporate income tax, personal income tax, or social security contributions are subject to changes, as a result of which there is often no reference to established regulations or legal precedents. The current regulations also contain uncertainties, resulting in differences in opinions as to legal interpretation of tax regulations both between government bodies and between companies and government bodies. Tax settlements and other (eg. customs or foreign exchange) may be subject to inspection by bodies that are entitled to impose significant fines, and additional liabilities established as a result of the inspection must be paid with interest. These phenomena cause the fact that tax risk in Poland is higher than in countries with more developed tax systems.

Tax settlements may be subject to inspection for a period of five years from the end. As a result, the amounts disclosed in the financial statements may change at a later date after the final decision of the tax authorities.

## 11. Long-term investments in related parties

	<i>as at 31 December</i>	<b>2016</b>	<b>2015</b>
<b>Gross value at the beginning of the period</b>		<b>122 209</b>	<b>121 142</b>
Acquisition of shares in MLP Łódź Sp. z o.o. <sup>1)</sup>		5	-
Acquisition of shares in MLP Czeladź Sp. z o.o. <sup>2)</sup>		5	-
Acquisition of shares in MLP Temp Sp. z o.o. <sup>3)</sup>		1 005	-
Acquisition of shares in LOKAFOP 201 Spółka z ograniczoną odpowiedzialnością SKA		-	50
Acquisition of shares in LOKAFOP 201 Sp. z o.o.		-	7
Acquisition of shares in MLP Wrocław Sp. z o.o.		-	5
Acquisition of shares in MLP Gliwice Sp. z o.o.		-	5
Acquisition of additional shares in MLP Property Sp. z o.o.		-	1 000
<b>Gross value at the end of the period</b>		<b>123 224</b>	<b>122 209</b>
<b>Net value at the end of the period</b>		<b>123 224</b>	<b>122 209</b>

Entity	Country of registry	Direct and indirect share in the share capital		Direct and indirect share in voting rights	
		31 December 2016	31 December 2015	31 December 2016	31 December 2015
MLP Pruszków I Sp. z o.o.	Poland	100%	100%	100%	100%
MLP Pruszków II Sp. z o.o.	Poland	100%	100%	100%	100%
MLP Pruszków III Sp. z o.o.	Poland	100%	100%	100%	100%
MLP Pruszków IV Sp. z o.o.	Poland	100%	100%	100%	100%
MLP Moszna I Sp. z o.o.	Poland	100%	100%	100%	100%
MLP Poznań Sp. z o.o.	Poland	100%	100%	100%	100%
MLP Lublin Sp. z o.o.	Poland	100%	100%	100%	100%
MLP Poznań II Sp. z o.o.	Poland	100%	100%	100%	100%
MLP Spółka z ograniczoną odpowiedzialnością SKA	Poland	100%	100%	100%	100%
MLP Energy Sp. z o.o.	Poland	100%	100%	100%	100%
MLP Property Sp. z o.o.	Poland	100%	100%	100%	100%
MLP Bieruń Sp. z o.o.	Poland	100%	100%	100%	100%
MLP Bieruń I Sp. z o.o.	Poland	100%	100%	100%	100%
MLP Sp. z o.o.	Poland	100%	100%	100%	100%
MLP Teresin Sp. z o.o.	Poland	100%	100%	100%	100%
MLP Poznań West Sp. z o.o.	Poland	100%	100%	100%	100%
MLP FIN Sp. z o.o.	Poland	100%	100%	100%	100%
LOKAFOP 201 Sp. z o.o.	Poland	100%	100%	100%	100%
LOKAFOP 201 Spółka z ograniczoną odpowiedzialnością SKA	Poland	100%	100%	100%	100%
MLP Wrocław Sp. z o.o.	Poland	100%	100%	100%	100%
MLP Gliwice Sp. z o.o.	Poland	100%	100%	100%	100%
MLP Łódź Sp. z o.o. <sup>1)</sup>	Poland	100%	-	100%	-
MLP Czeladź Sp. z o.o. <sup>2)</sup>	Poland	100%	-	100%	-
MLP Temp Sp. z o.o. <sup>3)</sup>	Poland	100%	-	100%	-



<sup>1)</sup> On 4 March 2016 MLP Group S.A. acquired 50 shares of total value of PLN 5,000 in MLP Łódź Sp. z o.o. and acquired directly 100% of the share capital and voting rights in the above mentioned company and paid them fully in cash. On 16 May 2016 MLP Łódź Sp. z o.o. has been registered in the National Court Register.

<sup>2)</sup> On 4 March 2016 MLP Group S.A. acquired 50 shares of total value of PLN 5,000 in MLP Czeladź Sp. z o.o. and acquired directly 100% of the share capital and voting rights in the above mentioned company and paid them fully in cash. On 31 May 2016 MLP Czeladź Sp. z o.o. has been registered in the National Court Register.

<sup>3)</sup> On 20 May 2016 MLP Group S.A. acquired 100 shares of total value of PLN 5,000 in MLP Temp Sp. z o.o. and acquired directly 100% of the share capital and voting rights in the above mentioned company.

On 31 May 2016 share capital of the company MLP Temp Sp. o.o. has been increased by the amount of PLN 1,001,000, by creating 20,020 new shares with a nominal value of PLN 50, which were covered as follows: MLP Group S.A. acquired 20,000 new shares with a total value of PLN 1,000,000 and entirely covered them with a cash contribution and MLP Spółka z ograniczoną odpowiedzialnością SKA acquired the remaining 20 new shares, which were covered by contribution in kind in the form of the enterprise MLP Spółka z ograniczoną odpowiedzialnością SKA.

Shares held in other owned subsidiaries included in the separate financial statements, have been valued based on the purchase price less any impairment allowances.

## 12. Long-term investments

	<i>as at 31 December</i>	<b>2016</b>	<b>2015</b>
Long-term loans granted to related parties		79 408	82 674
		<b>79 408</b>	<b>82 674</b>

## 13. Short-term investments

	<i>as at 31 December</i>	<b>2016</b>	<b>2015</b>
Short-term loans granted to related parties		1 068	19 095
Short-term loans granted to other entities		-	37
<b>Short term investments</b>		<b>1 068</b>	<b>19 132</b>

Details of the loans granted to related parties are disclosed in note 24.2.

#### 14. Deferred tax

	<i>as at 31 December</i>	Deferred tax assets		Deferred tax liabilities		Net value	
		2016	2015	2016	2015	2016	2015
Loans granted and received		(1 306)	(1 349)	-	-	(1 306)	(1 349)
Tax loss		(4 107)	(4 277)	-	-	(4 107)	(4 277)
Other		(460)	(379)	-	-	(460)	(379)
<b>Deferred tax assets / liabilities</b>		<b>(5 873)</b>	<b>(6 005)</b>	<b>-</b>	<b>-</b>	<b>(5 873)</b>	<b>(6 005)</b>

	1 January 2015	changes recorded in the statement of profit or loss	31 December 2015	changes recorded in the statement of profit or loss	31 December 2016
Loans granted and received	<b>(2 491)</b>	1 142	<b>(1 349)</b>	43	<b>(1 306)</b>
Tax loss	-	(4 277)	<b>(4 277)</b>	170	<b>(4 107)</b>
Other	<b>(160)</b>	(219)	<b>(379)</b>	(81)	<b>(460)</b>
	<b>(2 651)</b>	<b>(3 354)</b>	<b>(6 005)</b>	<b>132</b>	<b>(5 873)</b>

MLP Group S.A. does not recognize deferred tax arising from shares held in subsidiaries, as the Company has full control over its subsidiaries and in the foreseeable future does not plan to sell those shares.

## 15. Trade and other receivables

<i>as at 31 December</i>	<b>2016</b>	<b>2015</b>
Trade receivables from related parties	1 890	2 340
Trade receivables from third parties	-	8
Tax and social security receivables	-	1
Prepayments	157	108
Other	468	162
<b>Trade and other receivables</b>	<b>2 515</b>	<b>2 619</b>
Income tax receivables	742	13
<b>Short-term receivables</b>	<b>3 257</b>	<b>2 632</b>

Receivables from related parties were disclosed in note 24.

The aging structure of trade and other receivables, and the amount of allowances for receivables are presented in the table below:

<i>as at 31 December</i>	<b>2016</b>		<b>2015</b>	
	Receivables Gross	Allowance	Receivables Gross	Allowance
Current receivables	1 436	-	960	-
Overdue from 1 to 90 days	690	-	1 436	-
Overdue from 91 to 180 days	103	-	61	-
Overdue over 180 days	129	-	53	-
<b>Total receivables</b>	<b>2 358</b>	<b>-</b>	<b>2 510</b>	<b>-</b>

## 16. Cash and cash equivalents

<i>as at 31 December</i>	<b>2016</b>	<b>2015</b>
Cash on hand	11	10
Cash in bank	24	13
Short-term deposits	2 070	10 229
<b>Cash and cash equivalents in the separate statement of financial position</b>	<b>2 105</b>	<b>10 252</b>
<b>Cash and cash equivalents in the separate statement of cash flows</b>	<b>2 105</b>	<b>10 252</b>

The Company does not have any restricted cash.

## 17. Equity

### 17. 1 Share capital

	<i>as at 31 December</i>	<b>2016</b>	<b>2015</b>
<b>Share capital</b>			
Ordinary series A shares		11 440 000	11 440 000
Ordinary series B shares		3 654 379	3 654 379
Ordinary series C shares		3 018 876	3 018 876
		<b>18 113 255</b>	<b>18 113 255</b>
Par value of 1 share		0,25	0,25

As at 31 December 2016 the share capital of MLP Group S.A. amounted to PLN 4 528 313.75 and was divided into 18 113 255 shares entitling to 18 113 225 votes on the general meeting. All shares have the par value of PLN 0.25 and have been fully paid.

To the knowledge of the Management Board of the Company, the Shareholders holding, as of the date of preparation of the separate financial statements, either directly or through related entities, at least 5% of the overall number of votes during the General Shareholders' Meeting, are:

<b>Shareholder</b>	<b>Number of shares and votes at the GSM</b>	<b>% of capital and votes at the GSM</b>
MIRO B.V.	452 955	2,50%
MIRO LTD.	99 170	0,55%
GRACECUP TRADING LIMITED	641 558	3,54%
MetLife OFE	948 389	5,24%
THESINGER LIMITED	1 920 475	10,60%
Other shareholders	3 730 866	20,60%
CAJAMARCA Holland BV	10 319 842	56,97%
<b>Total</b>	<b>18 113 255</b>	<b>100,00%</b>

The number of shares held by MIRO B.V. has decreased as a result of the settlement of the transaction dated 19 April 2016 which took place in Warsaw. The transaction was a contribution in kind of 552,000 shares, representing 3.05% of the share capital of the Company made by MIRO B.V. seated in Delft, Netherlands to the company MIRO Ltd. seated in Limassol, Cyprus in exchange for the shares in the Cypriot company.

The company Miro B.V. seated in Delft, Netherlands is the parent company of MIRO Ltd. seated in Limassol, Cyprus, holding 100 % of shares in its share capital.

As a result of the settlement of the package transaction which took place on 26 April 2016, which was concluded through Pekao Investment Banking S.A. seated in Warsaw, Gracecup Trading Ltd. seated in Nicosia, Cyprus and MIRO Ltd. seated in Limassol, Cyprus, disposed of a total of 905,660 shares representing 5% of the share capital of the Company.

As a result of purchase of the Company's shares on 4 August 2016, MetLife Otworthy Fundusz Emerytalny increased its share in total voting rights on the General Meeting of Shareholders and in the Company's share capital above 5%. Before the change MetLife OFE had 870,706 shares representing 4.81% the share capital entitling it to 870,706 voting rights at the General Meeting of Shareholders.

As a result of the above described transaction MetLife OFE has 948,387 shares representing 5.24% of the share capital entitling it to 948,387 voting rights at the General Meeting of Shareholders, which constitutes 5.24% of the total number of votes.

Members of the Supervisory Board do not directly hold shares of the Company.

## 17. 2 Other capital reserve

Other capital reserve was created from the profit generated in 2010 (PLN 1,470 thousand) and the profit generated in 2012 (PLN 2,724 thousand)

## 18. Earnings per share

Earnings per share for each period are calculated by dividing the net result for the period by the weighted average number of shares during the reporting period.

	<i>for the year ended 31 December</i>	<b>2016</b>	<b>2015</b>
Net profit for the period		419	6 802
Weighted average number of issued shares (in units)		18 113 255	18 113 255
Net profit per share for the period (in PLN per share):			
- basic		0,02	0,38
- diluted		0,02	0,38

There were no dilutive factors in the presented periods.

## 19. Loans and other debt instruments

### 19. 1 Long term liabilities

	<i>as at 31 December</i>	<b>2016</b>	<b>2015</b>
Loans received from related parties		64 096	40 285
<b>Total long-term loans and other debt instruments</b>		<b>64 096</b>	<b>40 285</b>

### 19. 2 Short term liabilities

	<i>as at 31 December</i>	<b>2016</b>	<b>2015</b>
Loans received from related parties		-	11 096
<b>Total short-term loans and other debt instruments</b>		<b>-</b>	<b>11 096</b>

Details on the loans received from related parties are disclosed in note 24.2.

### 19. 3 Loans unsecured on the Company's assets

Loan received from	as at 31 December			2016		2015		
	currency	effective rate (%)	maturity date	in currency	PLN	maturity date	in currency	PLN
MLP Pruszków I Sp. z o.o.	EUR	Euribor 3M + margin	2021	337	1 492	2015	333	1 420
MLP Pruszków I Sp. z o.o.	EUR	Euribor 3M + margin	2020	614	2 718	2015	607	2 586
MLP Pruszków I Sp. z o.o.	PLN	Wibor 3M + margin	2020	-	1 062	2016	-	1 029
MLP Pruszków I Sp. z o.o.	PLN	Wibor 3M + margin	2020	-	6 850	2015	-	6 648
MLP Pruszków I Sp. z o.o.	EUR	Euribor 1M + margin	2020	6 972	30 843	2015	6 903	29 419
MLP Spółka z ograniczoną odpowiedzialnością SKA <sup>1)</sup>	EUR	Euribor 3M + margin	2016	-	-	2016	2 029	8 646
MLP Spółka z ograniczoną odpowiedzialnością SKA <sup>1)</sup>	EUR	Euribor 3M + margin	2020	-	-	2015	383	1 632
MLP Temp Sp. z o.o. <sup>1)</sup>	EUR	Euribor 3M + margin	2019	2 056	9 094	-	-	-
MLP Temp Sp. z o.o. <sup>1)</sup>	EUR	Euribor 3M + margin	2020	388	1 716	-	-	-
LOKAFOP 201 Spółka z ograniczoną odpowiedzialnością SKA	PLN	Wibor 3M + margin	2020	-	10 321	-	-	-
MLP Energy Sp. z o.o.	PLN	Wibor 3M + margin	2016	-	-	-	-	1
<b>Total</b>				<b>10 367</b>	<b>64 096</b>		<b>10 255</b>	<b>51 381</b>

<sup>1)</sup> As a result of the contribution of the enterprise of the company MLP Spółka z ograniczoną odpowiedzialnością SKA to MLP Temp Sp. z o.o., loans received by MLP Group S.A. from MLP Spółka z ograniczoną odpowiedzialnością SKA were also transferred.

## 20. Payroll liabilities

	<i>as at 31 December</i>	<b>2016</b>	<b>2015</b>
Special funds		157	157
Cash settled share based payment		2 048	1 760
<b>Payroll liabilities</b>		<b>2 205</b>	<b>1 917</b>

According to the resolution of the Supervisory Board of MLP Group S.A. employees are covered by phantom shares program for the period from 2014 to 2017.

Each entitled employee is granted fixed number of phantom shares, that is dependent on achieving the established financial goals by the Group.

After approval of the financial statements by General Meeting of Shareholders, Supervisory Board shall authorize a list of employees, with number of phantom shares assigned to each employee. Equivalent of phantom shares will be paid in cash.

Phantom shares for the previous financial year were paid in the amount of PLN 1,308 thousand.

The value of one phantom share is based on the current stock price of MLP Group S.A.

## 21. Trade and other liabilities

	<i>as at 31 December</i>	<b>2016</b>	<b>2015</b>
Trade liabilities to related parties		41	48
Trade liabilities to third parties		540	186
Taxation and social security liabilities		156	118
Accruals		329	146
Investment and other liabilities		114	254
<b>Trade and other liabilities</b>		<b>1 180</b>	<b>752</b>

Liabilities to related parties were disclosed in note 24.

The following table shows the aging structure of trade and other liabilities:

	<i>as at 31 December</i>	<b>2016</b>	<b>2015</b>
Current liabilities		849	605
Liabilities overdue from 0 to 90 days		160	4
Liabilities overdue from 91 to 180 days		-	1
Liabilities overdue over 180 days		15	24
<b>Total trade and other liabilities</b>		<b>1 024</b>	<b>634</b>

Trade liabilities are not subject to interest and are usually settled within 30 to 60 days. The difference between VAT liabilities and receivables is paid to the appropriate tax authorities in the periods regulated in tax law. Interest liabilities are usually settled based on approved interest notes.

## 22. Financial instruments

### 22. 1 Valuation of financial instruments

The fair value of financial assets and financial liabilities as at 31 December 2016 and 31 December 2015 is equal to the value presented in the separate statement of financial position.

The following assumptions have been adopted for the fair value of financial instruments:

- **cash and cash equivalents:** the carrying amount of these financial instruments corresponds to fair value because of the short maturity,
- **trade receivables, other receivables, trade liabilities and accruals:** the book value is comparable to fair value because of the short-term character of these instruments,
- **loans granted:** the carrying amount corresponds to fair value because of the floating rate which is comparable with market interest rates,
- **bank credit and loans received:** the carrying amount of these instruments is comparable to fair value because of the floating rate.

#### 22. 1. 1 *Financial assets*

	<i>as at 31 December</i>	<b>2016</b>	<b>2015</b>
<b>Loans and receivables:</b>			
Cash and cash equivalents		2 105	10 252
Loans and receivables, including:			
• Trade and other receivables		2 358	2 510
• Loans granted		80 476	101 806
		<b>84 939</b>	<b>114 568</b>
<b>Total financial assets</b>		<b>84 939</b>	<b>114 568</b>

#### 22. 1. 2 *Financial liabilities*

	<i>as at 31 December</i>	<b>2016</b>	<b>2015</b>
<b>Financial liabilities valued at amortized cost:</b>			
Loans received		64 096	51 381
Trade and other liabilities		1 024	634
		<b>65 120</b>	<b>52 015</b>
<b>Total financial liabilities</b>		<b>65 120</b>	<b>52 015</b>

### 22. 2 *The nature and extent of risks related to financial instruments*

The Company's operations are mainly associated with the exposure to the following types of financial risks:

- liquidity risk,
- market risk (including currency and interest rate risk),
- credit risk.

#### 22. 2. 1 *Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its long term loans due to insufficient inflows from operating activities.

The following table shows the maturity structure of loans taking into account interest cash flow:

Loans - expected payments	up to 1 year	from 1 to 5 years	over 5 years	Total
<b>2016</b>	-	69 342	-	<b>69 342</b>
<b>2015</b>	11 277	44 969	-	<b>56 246</b>



## 22. 2.2 Currency risk

The company is subject to considerable exchange rate risk because of the fact that a significant part of financial assets and financial liabilities is denominated in Euro.

The currency structure of the financial instruments in particular years has been presented below:

### The currency structure of financial instruments as at 31 December 2016 (PLN thousand)

Financial assets	PLN	EUR	other	Total
<b>Loans and receivables:</b>				
Cash and cash equivalents	2 081	23	1	2 105
Loans and receivables, including:				
• Trade and other receivables	2 358	-	-	2 358
• Loans granted	48 446	32 030	-	80 476
	<b>52 885</b>	<b>32 053</b>	<b>1</b>	<b>84 939</b>
<b>Financial liabilities</b>				
	<b>PLN</b>	<b>EUR</b>	<b>other</b>	<b>Total</b>
<b>Financial liabilities measured at amortized cost</b>				
Loans received	18 233	45 863	-	64 096
Trade and other liabilities	895	126	3	1 024
	<b>19 128</b>	<b>45 989</b>	<b>3</b>	<b>65 120</b>

### The currency structure of financial instruments as at 31 December 2015 (PLN thousand)

Financial assets	PLN	EUR	other	Total
<b>Loans and receivables:</b>				
Cash and cash equivalents	10 239	10	3	10 252
Loans and receivables, including:				
• Trade and other receivables	2 510	-	-	2 510
• Loans granted	69 906	31 900	-	101 806
	<b>82 655</b>	<b>31 910</b>	<b>3</b>	<b>114 568</b>
<b>Financial liabilities</b>				
	<b>PLN</b>	<b>EUR</b>	<b>other</b>	<b>Total</b>
<b>Financial liabilities measured at amortized cost</b>				
Loans received	7 678	43 703	-	51 381
Trade and other liabilities	628	-	6	634
	<b>8 306</b>	<b>43 703</b>	<b>6</b>	<b>52 015</b>

Because of the short foreign exchange position in 2016 and 2015, the Company is particularly exposed to fluctuations in the EUR/PLN exchange rate. The table below presents the potential effects a 5% depreciation of the Polish zloty against the euro would have on the financial results and the equity of the Company.

**The impact of the depreciation of the Polish zloty against euro on the results of the Company and its equity (PLN thousand)**

	<i>as at 31 December</i>	<b>2016</b>	<b>2015</b>
Increase in the exchange rate EUR/PLN by 5%		(697)	(590)

A 5% depreciation of the Polish zloty against the euro would have an unfavourable impact on the Company's financial results, increasing the cost of debt because of the short foreign exchange position of the Company.

**22. 2.3 Interest rate risk**

The interest rate risk is related mostly to floating-rate loans received. A change in the interest rate impacts cash flows associated with servicing these liabilities.

**The impact of interest rate changes on interest outflows in respect to loans**

	<i>as at 31 December</i>	<b>2016</b>	<b>2015</b>
EURIBOR + 50 bps		(229)	(219)
WIBOR + 50 bps		(91)	(38)

The above sensitivity analysis presents how much debt service interest cost would increase on each balance sheet date assuming a 50-base-point increase in interest rates.

**The impact of interest rate changes on interest inflows on loans granted**

	<i>as at 31 December</i>	<b>2016</b>	<b>2015</b>
EURIBOR + 50 bps		160	160
WIBOR + 50 bps		242	350

The above sensitivity analysis presents how much interest income would increase at the end of each reporting period assuming a 50-base-point increase in interest rates.

**The impact of interest rate changes on inflows for cash and cash equivalents**

	<i>as at 31 December</i>	<b>2016</b>	<b>2015</b>
WIBOR + 50 bps		10	51

The above sensitivity analysis presents how much interest income would increase at the end of each reporting date assuming a 50-base-point increase in interest rates.

**22. 2.4 Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or a counter party fails to meet its contractual obligations. Credit risk arises principally from receivables, loans granted and cash and cash equivalents.

The ageing of trade and other receivables is presented in note 15.

## 23. Contingent liabilities and pledges

As at 31 December 2016 the Company had established the following securities on its assets:

### 23. 1 Financial and registered pledges on shares

Securities established on MLP Group's shares in the companies:	Security	Value of the established security
<b>Registered pledge on shares:</b>		
MLP Pruszków I Sp. z o.o.	Raiffeisen Bank Polska S.A. receivables resulting from the credit CRD/25846/07 granted to MLP Pruszków I Sp. z o.o.	EUR 80 000 thousand
MLP Poznań II Sp. z o.o.	ING Bank Śląski S.A. receivables from the credit ING 11/0002 granted to MLP Poznań II Sp. z o.o.	EUR 14 047 thousand
<b>Registered and financial pledges on shares:</b>		
MLP Moszna I Sp. z o.o.	BGŻ BNP Paribas S.A. receivables resulting from the credit dated 5 November 2015 granted to MLP Moszna I Sp. z o.o.	EUR 12 975 thousand

Following a credit agreement signed by MLP Pruszków I Sp. z o.o. and Raiffeisen Bank Polska S.A. on 16 December 2016, registered and financial pledges on shares of MLP Pruszków I Sp. z o.o. owned by MLP Group S.A. has been established to the security amount of EUR 54 750 thousand. The pledges have been entered to the pledge register in January 2017. They will replace the pledges in MLP Pruszków I Sp. z o.o. existing as at 31.12.2016.

### 23. 2 Guarantees

On 16 December 2016 MLP Group S.A. entered into a guarantee agreement with Raiffeisen Bank Polska S.A. and MLP Pruszków I Sp. z o.o. hereinafter referred to as the Borrower, by which MLP Group S.A. undertakes to provide funding for the Borrower in order to finance its borrowing needs to the amount, which will cause the Debt Service Coverage Ratio (calculated according to the provisions of the loan agreement dated 16 December 2016) will be restored to the required level.

### 23. 3 Additional guarantees

As at 31 December 2016 the Company did not grant any additional guarantees.

### 23. 4 Other security

- Loan subordination agreement concerning the loan granted to MLP Pruszków I Sp. z o.o.
- Loan subordination agreement concerning the loans granted to MLP Teresin Sp. z o.o.
- Loan subordination agreement concerning the loan granted to MLP Poznań II Sp. z o.o.
- Loan subordination agreement concerning the loan granted to MLP Pruszków III Sp. z o.o.
- Support agreement granted to MLP Pruszków IV Sp. z o.o. by MLP Group S.A, under which if MLP Pruszków IV will not cover any excessive property construction costs (A2b building) with its own contributions, then the Issuer will grant to the above mentioned company an unsecured loan, which will be subordinated to repayment of company's liabilities, in an amount not exceeding EUR 68 thousand.

- Support agreement granted to MLP Pruszków IV Sp. z o.o. by MLP Group S.A, under which if MLP Pruszków IV will not cover any excessive costs of property construction (A3a building) with its own contributions, then the Issuer will grant to the abovementioned company an unsecured loan, which will be subordinated to repayment of the company's liabilities, in an amount not exceeding EUR 193 thousand.

## 24. Related party transactions

### 24. 1 Trade and other receivables and payables

Balances of related party transactions related to trade and other receivables and payables as at 31 December 2016 are as follows:

	Trade and other receivables	Trade and other liabilities
<b>Other related parties</b>		
MLP Pruszków I Sp. z o.o.	1 215	-
MLP Pruszków II Sp. z o.o.	63	-
MLP Pruszków III Sp. z o.o.	28	-
MLP Pruszków IV Sp. z o.o.	46	-
MLP Moszna I Sp. z o.o.	16	-
MLP Poznań Sp. z o.o.	14	-
MLP Lublin Sp. z o.o.	26	-
MLP Poznań II Sp. z o.o.	19	-
MLP Bieruń I Sp. z o.o.	4	-
MLP Energy Sp. z o.o.	118	-
MLP Poznań West Sp.z o.o.	37	-
MLP Teresin Sp.z o.o.	65	-
MLP Łódź Sp.z o.o.	13	-
MLP Czeladź Sp.z o.o.	53	-
MLP Wrocław Sp. z o.o.	139	-
MLP Gliwice Sp. z o.o.	34	-
	<b>1 890</b>	<b>-</b>
<b>Key management personnel</b>		
ROMI CONSULTING Michael Shapiro	-	41
	<b>-</b>	<b>41</b>
<b>Total</b>	<b>1 890</b>	<b>41</b>

## 24. 2 Loans granted and received

Related party balances related to loans granted and received as at 31 December 2016 are as follows:

	Loans granted	Loans received
<b>Other related parties</b>		
Fenix Polska Sp. z o.o.	44 065	-
MLP Pruszków I Sp. z o.o.	1 496	42 965
MLP Pruszków III Sp. z o.o.	1 338	-
MLP Moszna I Sp. z o.o.	104	-
MLP Property Sp. z o.o.	291	-
MLP Poznań Sp. z o.o.	1 177	-
MLP Lublin Sp. z o.o.	9 089	-
MLP Poznań II Sp. z o.o.	157	-
MLP Bieruń I Sp. z o.o.	1 146	-
MLP Poznań West Sp.z o.o.	691	-
MLP Teresin Sp. z o.o.	7 394	-
LOKAFOP 201 Spółka z ograniczoną odpowiedzialnością SKA	-	10 321
MLP FIN Sp. z o.o.	53	-
MLP Fin Spółka z ograniczoną odpowiedzialnością Sp.k.	31	-
MLP Temp Sp. z o.o.	-	10 810
MLP Gliwice Sp. z o.o.	13 444	-
	<b>80 476</b>	<b>64 096</b>
<b>Total</b>	<b>80 476</b>	<b>64 096</b>

### 24. 3 Revenues and expenses

Related party transactions related to revenues and expenses for the year ended 31 December 2016 are as follows:

	Revenues from sale of services	Sale - other	Interest income
<b>Parent company</b>			
The Israel Land Development Company Ltd., Tel-Aviv	138	-	-
	<b>138</b>	<b>-</b>	<b>-</b>
<b>Other related parties</b>			
Fenix Polska Sp. z o.o.	-	-	1 159
MLP Pruszków I Sp. z o.o.	5 970	22	1
MLP Pruszków II Sp. z o.o.	303	2	-
MLP Pruszków III Sp. z o.o.	222	3	40
MLP Pruszków IV Sp. z o.o.	295	5	-
MLP Moszna I Sp. z o.o.	121	1	-
MLP Spółka z ograniczoną odpowiedzialnością SKA	1	-	-
MLP Property Sp. z o.o.	-	-	9
MLP Poznań Sp. z o.o.	124	1	62
MLP Lublin Sp. z o.o.	204	2	116
MLP Poznań II Sp. z o.o.	200	4	4
MLP Bieruń Sp. z o.o.	2	-	-
MLP Bieruń I Sp. z o.o.	14	-	36
MLP Energy Sp. z o.o.	96	7	-
MLP Poznań West Sp. z o.o.	1	-	21
MLP Teresin Sp. z o.o.	113	2	241
LOKAFOP 201 Spółka z ograniczoną odpowiedzialnością SKA	90	-	-
MLP Łódź Sp. z o.o.	16	-	2
MLP Czeladź Sp. z o.o.	57	-	1
MLP Wrocław Sp. z o.o.	113	-	-
MLP Gliwice Sp. z o.o.	32	-	474
	<b>7 974</b>	<b>49</b>	<b>2 166</b>
<b>Total revenues</b>	<b>8 112</b>	<b>49</b>	<b>2 166</b>

	Purchase of services and remuneration	Other purchases	Interest expenses
<b>Other related parties</b>			
MLP Pruszków I Sp. z o.o.	(54)	(22)	(584)
MLP Pruszków II Sp. z o.o.	-	(2)	-
MLP Pruszków III Sp. z o.o.	-	(3)	-
MLP Pruszków IV Sp. z o.o.	-	(5)	-
MLP Moszna I Sp. z o.o.	-	(1)	-
MLP Temp Sp. z o.o.	-	-	(138)
MLP Poznań Sp. z o.o.	-	(1)	-
MLP Lublin Sp. z o.o.	-	(2)	-
MLP Poznań II Sp. z o.o.	-	(4)	-
MLP Energy Sp. z o.o.	-	(7)	-
MLP Teresin Sp. z o.o.	(5)	(2)	-
LOKAFOP 201 Spółka z ograniczoną odpowiedzialnością SKA	-	-	(321)
MLP FIN Sp. z o.o.	-	-	-
MLP Czeladź Sp z o.o.	(1)	-	-
MLP Gliwice Sp. z o.o.	(5)	-	-
	<b>(65)</b>	<b>(49)</b>	<b>(1 043)</b>

	Purchase of services and remuneration *	Other purchases	Interest expenses
<b>Key management personnel</b>			
RTK CONSULTING	(554)	-	-
ROMI CONSULTING Michael Shapiro	(393)	-	-
PROFART Tomasz Zabost	(188)	-	-
Other key management personnel	(521)	-	-
	<b>(1 656)</b>	<b>-</b>	<b>-</b>
<b>Total expenses</b>	<b>(1 721)</b>	<b>(49)</b>	<b>(1 043)</b>

\* Costs of services and remuneration do not include share-based payments settled in cash.

## 25. Significant litigation and disputes

As at 31 December 2016 the Company was not a party to any significant legal proceedings.

## 26. Significant events during the period and subsequent events

- On 9 June 2016 according to the resolution of the Supervisory Board Mr Radosław Krochta was appointed to the position of President of the Management Board and Mr Michael Shapiro was appointed to the position of Vice-President of the Management Board.
- On 25 May 2016 a dividend in the amount of PLN 41,660 thousand was paid. The number of shares entitled to dividend was 18,113,255 and the dividend amounted to PLN 2.30 per share.

- As a result of the settlement of package transactions from April 2016, the ownership structures of Miro B.V. and Gracecup Trading Ltd. have changed.
- In 2016 MLP Group S.A. acquired shares in companies: MLP Łódź Sp. z o.o., MLP Czeladź Sp. z o.o. and MLP Temp Sp. z o.o. Detailed information is included in note 11 of the separate financial statements.
- On 12 January 2017 pursuant to a notarial deed, the Company acquired 1,417 newly issued shares in the increased share capital of MLP Pruszkow III Sp. z o.o., of a nominal value of PLN 100 each, of a total nominal value of PLN 141,700. All shares were covered by the assets of the merged company MLP Moszna I Sp. z o.o., which was acquired by MLP Pruszków III Sp. z o.o. in the process of merger.

Following the end of the reporting period, until the date of approval of these separate financial statements for publication, no other events occurred which were not, but should have been, included both in the accounting books of the reporting period and the separate financial statements of the Company.

## 27. Remuneration paid or due to members of management and supervisory bodies of the Company

<i>for the year ended 31 December</i>	<b>2016</b>	<b>2015</b>
<b>Remuneration of Management Board</b>		
• <b>Remuneration and other benefits</b>		
Michael Shapiro	393	376
Radosław T. Krochta	554	168
Tomasz Zabost	188	370
	<b>1 135</b>	<b>914</b>
• <b>Cash settled share based payment</b>	510	662
	<b>1 645</b>	<b>1 576</b>
<b>Remuneration of Supervisory Board</b>		
• <b>Remuneration and other benefits</b>		
Maciej Matusiak	30	30
Jacek Tucharz	30	30
Eytan Levy	30	30
Shimshon Marfogel	30	30
Yosef Zvi Meir	30	30
Baruch Yehezkelov	-	5
Guy Shapira	30	25
	<b>180</b>	<b>180</b>
<b>Total remuneration paid or due to members of management and supervisory bodies of the Company</b>	<b>1 825</b>	<b>1 756</b>
<b>for the year ended 31 December</b>		
<b>Other management personnel</b>		
• Remuneration and other benefits.	521	533
• Cash settled share based payment	405	300
	<b>926</b>	<b>833</b>
<b>Total remuneration paid or due to the to members of the management, supervisory bodies and key management personnel</b>	<b>2 751</b>	<b>2 589</b>



Except for the transactions presented above, Members of the Management Board, the Supervisory Board and other management personnel did not receive any other benefits from the Company.

## 28. Employment structure

	<i>as at 31 December</i>	<b>2016</b>	<b>2015</b>
Number of employees		16	15

## 29. Audit Firm

On 5 December 2016, the Supervisory Board, acting on the basis of the article no. 21.2 g) of the Company's Articles of Association appointed KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa seated in Warsaw, as the entity entitled to audit separate and consolidated financial statements for the years: 2016 and 2017, and to perform interim reviews of separate and consolidated financial statements for the period ending 30 June 2017.

Headquarters of KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa is seated in Warsaw, 4A Inflancka Street. KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa has been registered on the list of entities entitled to audit financial statements under the number 3546.

The agreement with the audit firm was concluded by the Management Board for the time required to perform the tasks assigned to the auditor.

-----  
**Radosław T. Krochta**  
*President of the Management  
Board*

-----  
**Michael Shapiro**  
*Vice-President of the  
Management Board*

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**Tomasz Zabost**  
*Member of the Management  
Board*

Pruszków, 14 March 2017



# **Management Board report on the activities of MLP Group S.A.**

**for the year ended 31 December 2016**

The Management Board's report on the activities of MLP Group S.A. Capital Group for the year ended 31 December 2016 was prepared in accordance with paragraph 91 of the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by law of Non-Member States (Official Journal 2014 No. 133 with amendments).

## Table of contents

<b>Management Board approval of MLP Group S.A. report on MLP Group S.A. activities for the year ended 31 December 2016</b>	<b>53</b>
<b>Introduction</b>	<b>54</b>
<b>1. Basic information on MLP Group S.A.</b>	<b>55</b>
1.1 MLP Group S.A. shareholdings structure	55
1.2 Scope of activities of the Company and the Group	57
1.3 Information on the core activities	58
1.4 Information about the market, customers and suppliers	58
1.4.1 The structure of the Company's sales	58
1.4.2 The largest counterparties	59
<b>2. Activities of MLP Group S.A. Capital Group and the Company</b>	<b>60</b>
2.1 Activities of MLP Group S.A. Capital Group and the Company in 2016	60
2.1.1 Started and completed investment projects	60
2.1.2 Development projects currently conducted and in preparation	61
2.1.3 Significant agreements for the Company's activities	62
2.1.4 Agreements between the shareholders	62
2.1.5 Cooperation and collaboration agreements	62
2.1.6 Transactions with related parties	62
2.1.7 Litigation	62
2.2 Development of the MLP Group S.A., risk factors	63
2.2.1 Key risk factors relevant to the development of the Company	63
2.2.2 Business prospects	68
<b>3. MLP Group S.A. financial position, financial resources management</b>	<b>69</b>
3.1 Key economic and financial data disclosed in the separate financial statements of MLP Group S.A. for the year 2016	69
3.1.1 Selected financial data from the separate statement of financial position	69
3.1.2 Selected financial data from the separate statement of profit or loss	72
3.1.3 Selected information from the separate statement of cash flows	73
3.2 Forecasts	73
3.3 Company's financial management	74
3.3.1 Profitability ratios	74
3.3.2 Liquidity ratios	74
3.3.3 Debt ratios	75
3.4 Information on bank credits, bonds, loans, securities and guarantees	76
3.4.1 Concluded and terminated loan agreements	76
3.4.2 Concluded and terminated bank credit agreements	76
3.4.3 Bonds	76

3.4.4	<i>Loans granted</i>	76
3.4.5	<i>Granted and received securities</i>	76
3.4.6	<i>Granted and received guarantees</i>	77
3.4.7	<i>Other securities</i>	77
<b>3.5</b>	<b>Assessment of the feasibility of the investment plans</b>	<b>77</b>
<b>3.6</b>	<b>Evaluation of factors and unusual events affecting the separate financial result for the year</b>	<b>77</b>
<b>3.7</b>	<b>Information on issuing, repurchasing and repaying non-equity and equity securities</b>	<b>77</b>
<b>3.8</b>	<b>Concise description of significant successes achieved or failures occurred in the year ended 31 December 2016</b>	<b>77</b>
<b>3.9</b>	<b>Seasonal or cyclical nature of operations</b>	<b>77</b>
<b>4.</b>	<b>Statement on Corporate Governance</b>	<b>78</b>
<b>4.1</b>	<b>Equity and shareholders</b>	<b>81</b>
4.1.1	<i>Shareholders</i>	81
4.1.2	<i>Special rights of the Shareholders</i>	82
4.1.3	<i>Voting rights restrictions</i>	82
<b>4.2</b>	<b>General Meeting of Shareholders</b>	<b>83</b>
<b>4.3</b>	<b>Policy for amending the Articles of Association</b>	<b>84</b>
<b>4.4</b>	<b>Management Board</b>	<b>85</b>
4.4.1	<i>Competences of the Management Board</i>	85
4.4.2	<i>Principles of operation of the Management Board</i>	85
4.4.3	<i>Composition of the Management Board</i>	87
<b>4.5</b>	<b>The Supervisory Board</b>	<b>88</b>
4.5.1	<i>Competences of the Supervisory Board</i>	88
4.5.2	<i>Principles of operation of the Supervisory Board</i>	88
4.5.3	<i>Composition of the Supervisory Board</i>	90
4.5.4	<i>Committees of the Supervisory Board</i>	91
<b>4.6</b>	<b>Remuneration and employment contracts of the members of the Management Board, the Supervisory Board</b>	<b>92</b>
4.6.1	<i>Remuneration, bonuses and benefits received by the members of Management Board and the Supervisory Board</i>	92
4.6.2	<i>Agreements with the members of Management Board in case of resignation, dismissal</i>	92
<b>4.7</b>	<b>Shares held by members of the Management Board and the Supervisory Board</b>	<b>93</b>
<b>4.8</b>	<b>Management stock options program</b>	<b>93</b>
<b>4.9</b>	<b>Changes in the core principles of management of the Company</b>	<b>93</b>
<b>4.10</b>	<b>The system of internal control and risk management</b>	<b>93</b>
<b>4.11</b>	<b>Audit firm</b>	<b>95</b>

## Management Board approval of MLP Group S.A. report on MLP Group S.A. activities for the year ended 31 December 2016

The Management Report on the MLP Group S.A. activities for the year ended 31 December 2016 was prepared and approved by the Management Board on 14 March 2017.

-----  
**Radosław T. Krochta**  
*President of the Management  
Board*

-----  
**Michael Shapiro**  
*Vice-President of the  
Management Board*

-----  
**Tomasz Zabost**  
*Member of the Management  
Board*

*Pruszków, 14 March 2017*

## Introduction

MLP Group S.A. is the parent company of MLP Group S.A. Capital Group ("The Company", "The Issuer", "Parent Company"). The Company is registered in the National Court Register under registration number 0000053299, District Court for the Capital City Warsaw, XIV Department of the National Court Register. Company headquarters is located in Pruszków (05-800 Pruszków, 3 Maja 8 Street).

The Company was founded on 18 February 1995 (The act of transformation) and is established for an indefinite period.

The core business of the Company is management, buying and selling of real estate, rental of real estate, the management of residential and non-residential properties, construction works related to the construction of buildings and other construction. The predominant type of activity is PKD symbol: 7032Z - property management services.

The higher level parent company for the Company is CAJAMARCA HOLLAND B.V. that is registered in the Netherlands, 2 Martinus Nijhofflaan, 2624 ES Delft.

The ultimate parent company for the Company is Israel Land Development Company Ltd., registered in Tel-Aviv, Israel ("ILDC"). ILDC shares are listed on the Tel Aviv Stock Exchange.

## 1. Basic information on MLP Group S.A.

### 1. 1 MLP Group S.A. shareholdings structure

As at 31 December 2016, MLP Group S.A. consisted of the following entities:

Entity	Country of registry	Direct and indirect share of the Parent Company in the equity	Direct and indirect share of the Parent Company in the voting rights w prawach głosu
MLP Pruszków I Sp. z o.o.	Poland	100%	100%
MLP Pruszków II Sp. z o.o.	Poland	100%	100%
MLP Pruszków III Sp. z o.o.	Poland	100%	100%
MLP Pruszków IV Sp. zo.o.	Poland	100%	100%
MLP Moszna I Sp. z o.o.	Poland	100%	100%
MLP Poznań Sp. z o.o.	Poland	100%	100%
MLP Lublin Sp. z o.o.	Poland	100%	100%
MLP Poznań II Sp. z o.o.	Poland	100%	100%
MLP Spółka z ograniczoną odpowiedzialnością SKA	Poland	100%	100%
MLP Energy Sp. z o.o.	Poland	100%	100%
MLP Property Sp. z.o.o.	Poland	100%	100%
MLP Bieruń Sp. z o.o.	Poland	100%	100%
MLP Bieruń I Sp. z o.o.	Poland	100%	100%
MLP Sp. z o.o.	Poland	100%	100%
MLP Teresin Sp. z o.o.	Poland	100%	100%
MLP Poznań West Sp. z o.o.	Poland	100%	100%
MLP FIN Sp. z o.o.	Poland	100%	100%
LOKAFOP 201 Sp. z o.o.	Poland	100%	100%
LOKAFOP 201 Spółka z ograniczoną odpowiedzialnością SKA	Poland	100%	100%
MLP Wrocław Sp. z o.o.	Poland	100%	100%
MLP Gliwice Sp. z o.o.	Poland	100%	100%
MLP Łódź Sp. z o.o. <sup>1)</sup>	Poland	100%	100%
MLP Czeladź Sp z o.o. <sup>2)</sup>	Poland	100%	100%
MLP Temp Sp. z o.o. <sup>3)</sup>	Poland	100%	100%

### Changes in the shareholding structure

<sup>1)</sup> On 4 March 2016 MLP Group S.A. acquired 50 shares of total value of PLN 5,000 in MLP Łódź Sp. z o.o. and acquired directly 100% of the share capital and voting rights in the above mentioned company. The shares were paid fully in cash. On 16 May 2016 MLP Łódź Sp. z o.o. has been registered in the National Court Register.

<sup>2)</sup> On 4 March 2016 MLP Group S.A. acquired 50 shares of total value of PLN 5,000 in MLP Czeladź Sp. z o.o. and acquired directly 100% of the share capital and voting rights in the above mentioned company. The shares were paid fully in cash. On 31 May 2016 MLP Czeladź Sp. z o.o. has been registered in the National Court Register.

<sup>3)</sup> On 20 May 2016 MLP Group S.A. acquired 100 shares of total value of PLN 5,000 in MLP Temp Sp. z o.o. and acquired 100% of the share capital and voting rights in the above mentioned company.

On 31 May 2016 share capital of MLP Temp Sp. z o.o. has been increased by the amount of PLN 1,001,000, by creating 20,020 new shares with a nominal value of PLN 50, which were covered as follows: MLP Group S.A. acquired 20,000 new shares with a total value of PLN 1,000,000 and entirely covered them with a cash contribution and MLP Spółka z ograniczoną odpowiedzialnością SKA acquired the remaining 20 new shares, which were covered by contribution in kind in the form of the enterprise MLP Spółka z ograniczoną odpowiedzialnością SKA.

In the year ended 31 December 2016 there were no other changes in shareholding structure.



## 1. 2 Scope of activities of the Company and the Group

Since 1998, MLP Group operates in the market of commercial real estate. Its core activity is the construction and property management related to logistics. Activity in this area includes:

- purchase of investment properties (either directly or through the purchase of shares in companies owning the real estate),
- property management (including activities related to tenant services such as: determination of the targeted tenant group, tenant search, negotiating leases, re-renting of property),
- activities related to the provision of real estate financing (setting the target ratio of debt financing to equity financing and activities of providing the desired amount of debt financing for each of the assets in the most favorable conditions in the given time),
- technical activities with supervision (including repairs, maintenance and cleaning services),
- sale of real estate investments

The Company realizes these objectives and tasks through its subsidiaries, in which the Company holds its shares. MLP Group S.A. is a holding entity that manages companies involved in various logistics parks.

The Group is currently operating five logistics parks located in Poland: MLP Pruszków I, MLP Pruszków II, MLP Poznań, MLP Lublin and MLP Teresin, one logistics park under construction - MLP Wrocław, and two logistics parks in preparation phase: MLP Czeladź, MLP Gliwice. The total size of surplus land in Poland is 85.3 hectares.

Investment property in the logistics parks are measured at fair value by independent experts.

The following table shows the structure of the real estate portfolio at fair value by categories in different parks of MLP as at 31 December 2016:

Logistics park	Fair value EUR thousand	Fair value PLN thousand
MLP Pruszków I	80 210	354 848
MLP Pruszków II	73 506	325 191
MLP Poznań	24 963	110 436
MLP Lublin	13 220	58 485
MLP Teresin	8 380	37 073
MLP Gliwice	4 040	17 873
MLP Wrocław	7 980	35 304
MLP Czeladź	5 400	23 890
<b>Total</b>	<b>217 699</b>	<b>963 100</b>

### 1. 3 Information on the core activities

The basic and sole activity of MLP Group S.A. is property management of logistics investments. The Company's source of revenues is property management and advisory services.

The Company conducts its activities in Poland.

Revenue	<i>for the year ended 31 December</i>	2016	2015
<b>Domestic sales</b>			
Sales to non-related clients		113	24
Sales to related clients		7 974	8 636
<b>Total domestic sales</b>		<b>8 087</b>	<b>8 660</b>
<b>Foreign sales</b>			
Sales to related clients		138	169
<b>Total foreign sales</b>		<b>138</b>	<b>169</b>
<b>Total revenue from sales</b>		<b>8 225</b>	<b>8 829</b>

### 1. 4 Information about the market, customers and suppliers

The main and sole activity of the Company MLP Group SA is the property management. The Company's activities are carried out on Polish territory. Based on the location of the real estate investment company extracts a single geographical segment - Poland. Location of assets coincides with the location of customers. Operating segments coincide with the geographical segments.

#### 1. 4.1 The structure of the Company's sales

The Company generates revenue mainly from (i) real estate administrative services for subsidiaries, as well as (ii) management and advisory services. Transactions with related parties are the main source of revenue.

Revenue structure:	<i>for the year ended 31 December</i>	2016	2015	<i>change (%)</i>
Property management		3 393	3 252	4%
Advisory services		4 017	4 238	-5%
Re-invoiced services		785	1 315	-40%
Other revenues		30	24	25%
<b>Total revenues</b>		<b>8 225</b>	<b>8 829</b>	<b>-6,8%</b>
<i>- including from related parties</i>		<i>8 112</i>	<i>8 805</i>	<i>-8%</i>

In 2016, the total sales of services to related parties amounted to PLN 8,112 thousand. MLP Pruszków I Sp. z o.o. was the main beneficiary of these services and its share in the Company's sales revenue in the period was 74% (in 2015, this share equalled 68%). The following table illustrates the structure of sales in 2016 and 2015:

<b>Structure of sales to related parties</b>	<b>2016</b>	<b>2015</b>
<i>for the year ended 31 December</i>		
<b>Parent entity</b>		
The Israel Land Development Ltd	138	169
<b>Subsidiaries</b>		
MLP Pruszków I Sp. z o.o.	5 970	5 958
MLP Pruszków II Sp. z o.o.	303	181
MLP Pruszków III Sp. z o.o.	222	194
MLP Pruszków IV Sp. z o.o.	295	112
MLP Moszna I Sp. z o.o.	121	118
MLP Spółka z ograniczoną odpowiedzialnością SKA	1	1 071
MLP Poznań Sp. z o.o.	124	46
MLP Lublin Sp. z o.o.	204	214
MLP Poznań II Sp. z o.o.	200	203
MLP Bieruń Sp. z o.o.	2	367
MLP Bieruń I Sp. z o.o.	14	30
MLP Energy Sp. z o.o.	96	-
MLP Poznań West Sp.z o.o.	1	30
MLP Teresin Sp. z o.o.	113	76
LOKAFOP 201 Spółka z ograniczoną odpowiedzialnością SKA	90	36
MLP Łódź Sp z o.o.	16	-
MLP Czeladź Sp z o.o.	57	-
MLP Wrocław Sp. z o.o.	113	-
MLP Gliwice Sp. z o.o.	32	-
<b>Total</b>	<b>8 112</b>	<b>8 805</b>

#### **1. 4.2 The largest counterparties**

During the analyzed period, the Company cooperated mainly with suppliers providing the following services:

- media delivery,
- advisory - legal and business advisory,
- audit and review of financial statements, property appraisers services

In 2016, turnover with none of the suppliers exceeded 10% revenue of the Company.

Wide range of suppliers guarantees that Company is not dependent on a single supplier.

## 2. Activities of MLP Group S.A. Capital Group and the Company

### 2.1 Activities of MLP Group S.A. Capital Group and the Company in 2016

In 2016, the Company continued its activities of construction and property management. These activities are conducted through subsidiaries in which the Company holds its shares.

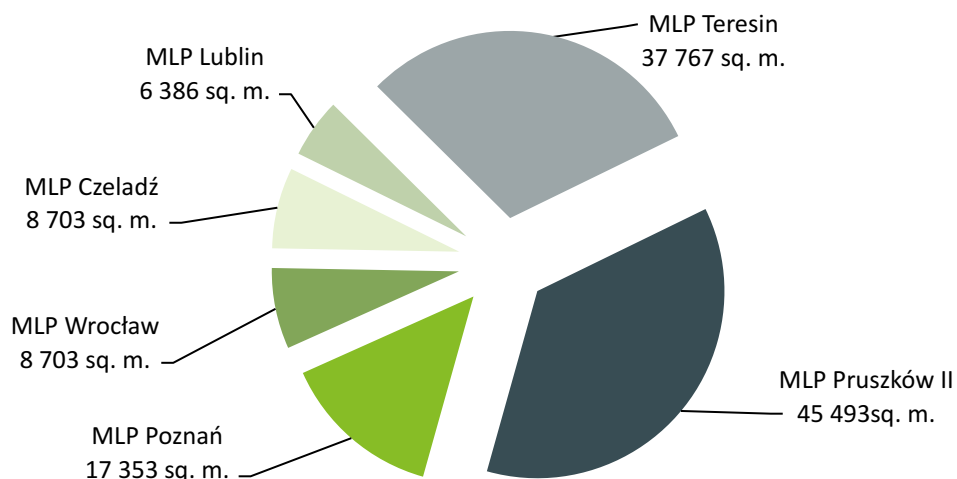
In the analyzed period, the Company, through its subsidiaries, simultaneously operated several development projects and rented more than 290 thousand sq.m. of warehouse and office space. The Company's Management Board reviewed and evaluated:

- current projects in development for the progress of the construction work,
- earned and expected revenue from sales,
- the best possible use of existing land resources of the Group and adjustment of the sale offers to the expectations and demand of the market,
- possibilities to purchase land for new projects to be implemented in subsequent years,
- optimization of financing of the Group's investments.

#### 2.1.1 Started and completed investment projects

In 2016 the Company carried out, through its subsidiaries, investment projects with a total area of 105,886 sq.m.

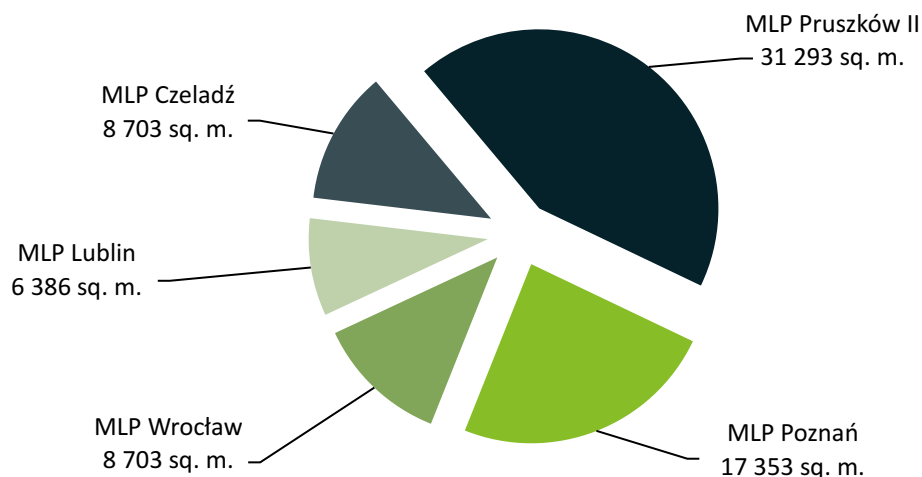
Area of investment projects conducted and in preparation in 2016 (sq.m.)



Out of the total area of projects that were conducted and in preparation in 2016, 51,967 sq.m. (measured area) of investment projects were started before 2016. Additionally in 2016, total area of investment projects started or being in preparation amounted to 72,438 sq.m. As at 31 December 2016, the Company has, through its subsidiaries, projects in preparation of the total area of 18,519 sq.m.: logistics park MLP Czeladź - 8,703 sq.m, MLP Pruszków II - 9,816 sq.m. The realisation terms of these projects are scheduled for 2017-2018.

The chart presents the surface area of initiated investment projects in various logistics parks of the Group:

**Area of investment projects initiated and in preparation in 2016 (sq.m)**



Out of all projects under construction in 2016, projects of the total surface of 29,625 sq.m. were finalized.

**Area of investment projects completed in 2016 (sq.m.)**



**2. 1.2 Development projects currently conducted and in preparation**

Since the beginning of 2016 until the publication date of this report, the Company has finished, through its subsidiaries, projects of the total area of 29,625 sq.m. The above-mentioned investments had been initiated before 2016. Moreover, currently there are 94,780 sq.m. of surface to be constructed, being object of the lease agreements in the following logistics parks: MLP Pruszków II, MLP Poznań, MLP Lublin, MLP Teresin, MLP Wrocław and MLP Czeladź.

In 2016 land for construction of new logistics park - MLP Czeladź was acquired, where a total of 74,200 sq.m. is planned to be built.

In accordance with the adopted strategy, the Company will focus on expanding the existing logistics parks (i.e. construction of warehouses on land belonging to the Company), and development of BTS projects outside of existing parks.

Projects are conducted in BTS system, i.e. in each case, a lease agreement with a prospective tenant must be signed prior to the initiation of the investment process.

As at the date of the approval of the present report, the Company has not entered into any other binding commitments for realization of new investment projects.

### **2. 1.3 Significant agreements for the Company's activities**

**Significant suppliers with whom the Company entered into agreements in 2016 with a total value exceeding 10% of the Company's equity.**

In the financial year ended 31 December 2016, the Company did not enter into a trade agreement with a single supplier the total value of which exceeded 10% of the Company's equity.

### **2. 1.4 Agreements between the shareholders**

MLP Group S.A. has no information on possible agreements between the shareholders of the Company.

Neither does MLP Group S.A. have information on possible agreements (including those concluded after the balance sheet date), which may result in future changes in the proportion of shares held by existing shareholders.

### **2. 1.5 Cooperation and collaboration agreements**

In 2016, MLP Group S.A. did not sign any significant agreement related to the cooperation or collaboration with other entities.

### **2. 1.6 Transactions with related parties**

A description of related party transactions is presented in Note 24 to the Separate Financial Statements for the year ended 31 December 2016.

### **2. 1.7 Litigation**

**Ongoing proceedings in court, competent authority for arbitration proceedings or public authority.**

As at 31 December 2016, there was no individual proceeding in court, arbitration proceedings or public administration related to liabilities or receivables of the Company or its subsidiaries, the value of which would exceed 10% of the Company's equity.

As at 31 December 2016 there were no combined proceedings in court, arbitration or public administration related to liabilities or receivables, that together would exceed 10% of the Company's equity.

Proceedings involving the Company have no material impact on the Company's operations.

## 2. 2 Development of the MLP Group S.A., risk factors

MLP Group S.A. development is dependent on the development of subsidiaries within the MLP Group S.A. Capital Group.

### 2. 2.1 Key risk factors relevant to the development of the Company

MLP Group S.A. conducts its activities through entities in which it holds its shares. Activities of the Company and the Group are exposed to the following risks:

- Credit risk
- Liquidity risk
- Market risk

The Management Board is responsible for the establishment and oversight of the Company's risk management, including the identification and analysis of risks to which the Company is exposed, the terms of their respective limits and controls and for monitoring risks and adherence to limits of the respective risks. Rules and risk management procedures are regularly reviewed to reflect changes in the market conditions and changes in the Company's activities.

#### Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from debt instruments. The objective of risk management is to maintain, in terms of quality and value, a stable and sustainable portfolio of loans granted and other investments in debt instruments, achieved by having a policy of setting credit limits for contract parties.

#### Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial instrument. The Company's approach to managing liquidity is to ensure, to the extent possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses, or risking damage to the Company's reputation. For this purpose, the Company monitors its cash flows, maintains lines of credit and keeps sufficient cash to cover anticipated operating expenses and expected cash outflows for current financial liabilities, and maintains anticipated liquidity ratios.

#### Market risk

Market risk is the risk that changes in market prices, such as exchange rates, interest rates and equity prices will affect the Company's income or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing return. The activities of the Company's subsidiaries in this respect include applying hedge accounting to minimize volatility in the profit or loss for the current period.

##### ◦ Foreign exchange risk

The majority of the Group companies revenue from rent is denominated in EUR and USD. A portion of the Group's costs, such as certain construction costs, labor costs and wages are denominated in PLN.

In order to hedge currency risk (i.e. Currency hedging), the Group companies mainly use natural hedging by obtaining debt financing in EUR. To reduce the volatility of return of investment caused by exchange rate fluctuations, the Group companies may also conclude hedging contracts against such risks, including use of derivatives, and entering into agreements with contractors (investment agreement with general constructor), which are denominated in EUR. Due to the short currency position of the Group companies, the depreciation of the Polish currency against EUR adversely affects the Group companies performance, resulting in increased debt service costs.

◦ **Interest rate risk**

The Group companies credit agreements are based on floating interest rates. The level of interest rates is highly dependent on many factors, including governmental monetary policies and both domestic and international economic and political conditions, and other factors beyond the Group companies' control. Changes in interest rates may increase the financing cost of the Group companies with respect to existing loans, and thus affect its profitability. A need to hedge the risk of interest rates is considered by the Group companies in each case. In order to reduce the impact of the interest rate risk, the companies enter into Interest Rate SWAP transactions with the bank financing their activities. Changes in interest rates may have a material adverse effect on the financial position and results of the Group companies.

In addition to these risks, the Company's activities are also exposed to the following risk factors:

**Risks associated with the Company's and Group companies' dependence on the macroeconomic situation**

The downturn in the real estate market may have a negative impact on the Group companies' performance in terms of profits from rental of warehouse space. In case of tenant's default to meet its obligation or in case of absence of tenants, the Company and Group companies will not receive rental income while incurring the costs associated with the property. These costs may include legal costs and valuation expenses, maintenance costs, insurance and property taxes. The level of rent and the market price of the property are, in principle, dependent on the economic situation. Consequently, the decline in market prices may result in the determination of other than expected rent levels and lead to losses in relation to the respective projects or may result in a need to find an alternative use of land purchased for investment. The occurrence of these events could have a material adverse effect on their business, financial condition and results.

The Company is exposed to risks related to: real estate development, acquisition, ownership and management of commercial real estate.

Revenue and value of the property held by the Company may be affected by numerous factors, including: (i) changes in laws and administrative regulations concerning real estate, including obtaining of licenses or permits, determining zoning, taxes and other public charges, (ii) the cyclical changes in the real estate market in which the Company operates; (iii) the Company's ability to obtain appropriate services for construction, management, maintenance, and insurance services. Although the Company undertakes certain actions to protect its business from the negative impact of these risks, it is impossible to eliminate them entirely. Occurrence of any of these risks will have a significant negative impact on the Company's business, financial condition, results and prospects.



### **Risk associated with the downturn in the real estate market and the general deterioration of the economic situation**

The downturn in the real estate market may have a negative impact on the Group companies' performance in terms of profits from rental of warehouse space. In case of tenant's default to meet its obligation or in case of absence of tenants, the Company and Group companies will not receive rental income while incurring the costs associated with the property. These costs may include legal costs and valuation expenses, maintenance costs, insurance and property taxes. The level of rent and the market price of the property are, in principle, dependent on the economic situation. Consequently, the decline in market prices may result in the determination of other than expected rent levels and lead to losses in relation to the respective projects or may result in a need to find an alternative use of land purchased for investment. The occurrence of these events could have a material adverse effect on their business, financial condition and results.

### **Insurance risk**

The group companies' properties may be destroyed or damaged due to many foreseeable or unforeseeable circumstances. It is also possible that third parties may suffer damages as a result of an event, which the Group companies are responsible for. Due to the scope of insurance coverage currently held by the Group companies, there is a risk that such damages or claims will not be covered by insurance or that they will only be partially covered by insurance. Some risks are not subject to insurance, in case of other types of risks insurance premium costs are disproportionately high in relation to risk occurrence likelihood. The Group companies' insurance coverage may not protect them against all losses that they may incur in connection with its activities, and some types of insurance may not be available on commercially reasonable terms or at all. Accordingly, the Group companies' insurance coverage may not be sufficient to fully compensate for losses incurred in connection with its real estate.

### **Risks associated with the development activities of the Company.**

The development of the Company's business is related to the risks arising from the nature of the process of construction of warehouses and manufacturing centers. During the construction of warehouses and manufacturing centers there may occur, not due to the developer, delays or technical problems resulting in a failure to meet deadlines and to obtain appropriate permits required by law or administrative approvals, which may have an adverse effect on the business, financial position and results of the Company.

### **Risks associated with a failure to finalize profitable investments and the nature of property development activities:**

The subsidiary's ability to start and complete a development, reconstruction or modernization of its property depends on a number of factors, some of which are beyond its control. These factors include, in particular, their ability to receive all of the necessary administrative decisions, obtaining external financing on satisfactory terms or at all, the involvement of reliable contractors and obtaining appropriate tenants.

The following factors, over which the Group companies have limited or no control, that may result in a delay or otherwise adversely affect the development or modernization of the Group companies' properties include:

- increase in the cost of materials, labor costs or other expenses that may cause the completion of a project to be unprofitable;
- actions taken by public authorities and local governments resulting in unexpected changes in the land use planning and development plan;

- disadvantages or limitations on legal title to land or buildings acquired by the Group companies or defects, restrictions or conditions related to management decisions on land owned by the Group companies;
- changes in applicable laws, regulations or standards, which come into force after the start of the planning or construction of the project, resulting in the Group companies incurring additional costs or causing delays in the project or its interpretation or application;
- violations of building standards, incorrect methods of construction or faulty construction materials;
- industrial accidents, previously undisclosed existing soil contamination and potential liability related to environmental regulations and other applicable laws, for example, related to archaeological finds, un-exploded bombs or building materials that are deemed harmful to health;
- forces of nature, such as bad weather, earthquakes and floods, which can damage or delay the completion of projects;
- acts of terrorism or riot, revolts, strikes or civil unrest.

Investment projects may be carried out only if the land on which they are carried out is provided with appropriate technical infrastructure as required by law, (e.g. access to internal roads, the possibility of connections to the media or certain procedures for fire protection and adequate facilities to ensure this protection). The relevant authorities may require the Group companies to create additional infrastructure required by law in the performance of its construction work, before making appropriate administrative decisions. Such additional work can significantly affect the cost of construction.

In addition, the implementation of some projects may become uneconomic or impracticable for reasons that are beyond the Group companies' control, such as a slowdown in the real estate market. The Group companies may not be able to complete these projects on time, within budget or at all, due to any of the above or other factors, which may increase the costs, delay the implementation of the project or cause the project to be abandoned.

#### **Risk associated with general contractors**

In a significant number of cases, the Group companies commission their projects to general contractors or other third parties. The successful completion of construction projects depends on the ability of the Group companies to employ general contractors who carry out realized projects in accordance with established standards of quality and safety, at commercially reasonable terms, within the agreed deadlines and within the approved budget. Inability to employ general contractors on commercially reasonable terms and the failure of general contractors to meet accepted standards of quality and safety, or non-completion of construction or repairs on time or within the agreed budget may increase the cost of the project, delays in its completion, as well as result in claims against the Group companies. In addition, the above-mentioned events may adversely affect the Group companies' image and the ability to sell completed projects.

The financial strength and liquidity of the general contractors of the Group companies may not be sufficient in the event of a severe economic downturn in the property market, which in turn could lead to their bankruptcy, adversely affecting the execution of the Group companies' strategy. Any security usually established by general contractors in order to secure the performance of obligations under the respective agreements with the Group companies, may not cover the total costs and damages incurred by the Group companies in these circumstances.

The Group companies' dependency on general contractors also exposes the Group companies to all risks associated with poor quality of work of such general contractors, their subcontractors and employees and of construction flaws. In particular, the Group companies may incur losses due to the need to engage other contractors to correct defective work done or because of the need to pay compensation to people who have suffered losses as a result of defective work carried out. In addition, there is a risk that such losses or expenses will not be covered by insurers of the Group companies, by the contractor or by the appropriate subcontractor.

**Risks associated with administrative decisions:**

As part of their activities and in the course of management of their assets, the Group companies are obligated to obtain multiple licenses, approvals or other decisions of public administration bodies, in particular for the execution construction and use of its property. The Group companies can not guarantee that any of such permits, consents or other decisions in relation to the existing property or new investments will be obtained in time or that it will be obtained at all, or that currently held or acquired in the future permits, consent or other decisions will not be withdrawn or that their term of validity will not be extended. In addition, public administrations may issue a decision based on the fulfilment of certain additional terms and conditions (including, for example ensuring adequate infrastructure) or impose on the Group companies in such decisions additional conditions and obligations, which may involve additional costs and the extension of the procedures.

In addition, the Group companies may seek changes of certain projects or facilities of the Group companies, as well as the change in use of the property, so as to utilize them more effectively and in accordance with the current trends in the real estate market. The introduction of such changes may not be possible due to the difficulty in obtaining or changing required permits or change, approvals and decisions, in particular in the case of real estate included in the register of monuments.

In addition, social organizations and organizations dealing with the protection of the environment, as well as adjacent property owners and local residents can take action to prevent the Group companies from obtaining the required permits, approvals or other decisions, including participation in administrative and judicial proceedings involving the Group companies, challenging decisions, regulations and rulings issued in the course of such proceedings, as well as disseminating negative and defamatory information about the Group companies and their investments. These actions may, in particular, significantly extend the realization of its investment activities by the Group companies, as well as result in additional costs incurred by the Group companies in connection with the ongoing investments.

## 2. 2.2 Business prospects

MLP Group S.A. conducts its activities through managing entities in which it holds its shares.

The strategic goal of the subsidiaries is to permanently increase the owned warehouse space on the Polish market and to start operating abroad. In 2017, the Management Board of MLP Group plans to invest in warehouse market in Germany (near Dortmund) and Romania (near Bucharest) and analyzes the offers to purchase land in these countries. The Board is considering the possibility of starting a program of corporate bonds, from which the funds would be used to purchase real estate in Germany and Romania.

The effect of this will be strengthening the Company's position as a long-term partner of customers developing operations in the area. The strategic objective of the subsidiaries is the realization of buildings in the Build to Suit system (BTS) on the current surplus land and construction of buildings in the BTS system beyond the current parks for resale. GDP growth, as well as the growing importance of Poland as a service center for e-commerce companies for the needs of countries of Western Europe are an important factor in stimulating demand. Furthermore low interest rates and the lowest rent prices in Europe make Poland one of the most attractive places in Europe. As the general state of the economy and trends in the industrial market are highly correlated, we can expect that it will be reflected in the demand for storage.<sup>1)</sup>

Year 2016 was the year for the warehouse market in its history. In the analyzed period, market participants signed agreements related to the lease of 3 million sq.m. Among reasons of demand growth, that is not expected to decline in future, are: optimization of supply chain, increase in industrial production, openings of new transport corridors and increasingly rapid e-commerce growth. Most of the warehouse space was leased in the Warsaw area (760 thousand sq.m.), Upper Silesia area (494 thousand sq.m.), Wrocław area (355 thousand sq.m.), Poznań area (340 thousand sq.m.) and Central Poland (307 thousand sq.m.). High increase was recorded on rising markets like in Szczecin (338 thousand sq.m.) or Bydgoszcz and Toruń (128 thousand sq.m.).<sup>2)</sup>

The most active tenants are logistics operators (32% share in the net demand), FMCG sector (12% share), e-commerce (11% share), automotive branch (8% share) and light production industry (6% share).<sup>2)</sup>

<sup>1)</sup> Source: [www.cushmanwakefield.pl](http://www.cushmanwakefield.pl)

<sup>2)</sup> Source: [www.propertynews.pl](http://www.propertynews.pl)

### 3. MLP Group S.A. financial position, financial resources management

#### 3.1 Key economic and financial data disclosed in the separate financial statements of MLP Group S.A. for the year 2016

##### 3.1.1 Selected financial data from the separate statement of financial position

The structure of the separate statement of financial position of MLP Group S.A. (selected, significant items)

	31 December <i>as at</i> 2016	Share %	31 December 2015	Share %	Change %
<b>ASSETS</b>	<b>215 160</b>	<b>100%</b>	<b>242 970</b>	<b>100%</b>	<b>-11%</b>
<b>Non-current assets</b>	<b>208 730</b>	<b>97%</b>	<b>210 954</b>	<b>87%</b>	<b>-1%</b>
<i>Including:</i>					
Long-term financial assets in related parties	123 224	57%	122 209	50%	1%
Long-term investments	79 408	37%	82 674	34%	-4%
Deferred tax assets	5 873	3%	6 005	3%	-2%
<b>Current Assets</b>	<b>6 430</b>	<b>3%</b>	<b>32 016</b>	<b>13%</b>	<b>-80%</b>
<i>Including:</i>					
Short-term investments	1 068	0%	19 132	8%	-94%
Trade and other receivables	2 515	1%	2 619	1%	-4%
Cash and cash equivalents	2 105	1%	10 252	4%	-79%

	31 December <i>as at</i> 2016	Share %	31 December 2015	Share %	Change %
<b>LIABILITIES AND EQUITY</b>	<b>215 160</b>	<b>101%</b>	<b>242 970</b>	<b>101%</b>	<b>-11%</b>
<b>Equity*</b>	<b>147 679</b>	<b>69%</b>	<b>188 920</b>	<b>78%</b>	<b>-22%</b>
<b>Long-term liabilities</b>	<b>64 096</b>	<b>30%</b>	<b>40 285</b>	<b>17%</b>	<b>59%</b>
Loans and other debt instruments	64 096	30%	40 285	17%	59%
<b>Short-term liabilities</b>	<b>3 385</b>	<b>2%</b>	<b>13 765</b>	<b>6%</b>	<b>-75%</b>
<i>Including:</i>					
Loans and other debt instruments	-	0%	11 096	5%	-100%

\* In May 2016 MLP Group S.A. paid a dividend in the amount of PLN 41,660 thousand.

As at 31 December 2016, long-term financial assets represented a significant part of the Company's assets, i.e. 57% of total assets. The most significant part of the Company's total liabilities and equity contained equity (i.e. 69% of total liabilities and equity) and loans and other debt instruments (i.e. 30% of total liabilities and equity).

The liabilities structure has slightly changed. Equity still constitutes the most significant position (i.e. 69% of the liabilities and equity structure). However, the long-term liabilities related to loans and other debt instruments increased - it equals 30% due to the extension of the deadline for the payment of the loans.

#### Long-term financial assets in related parties

	<i>as at 31 December</i>	2016	2015
<b>Gross value at the beginning of the period</b>		<b>122 209</b>	<b>121 142</b>
Acquisition of shares in MLP Łódź Sp. z o.o.		5	-
Acquisition of shares in MLP Czeladź Sp. z o.o.		5	-
Acquisition of shares in MLP Temp Sp. z o.o.		1 005	-
Acquisition of shares in LOKAFOP 201 Spółka z ograniczoną odpowiedzialnością SKA		-	50
Acquisition of shares in LOKAFOP 201 Sp. z o.o.		-	7
Acquisition of shares in MLP Wrocław Sp. z o.o.		-	5
Acquisition of shares in MLP Gliwice Sp. z o.o.		-	5
Acquisition of additional shares in MLP Property Sp. z o.o.		-	1 000
<b>Gross value at the end of the period</b>		<b>123 224</b>	<b>122 209</b>
<b>Net value at the end of the period</b>		<b>123 224</b>	<b>122 209</b>

Shares in subsidiaries held by MLP Group S.A. as at 31 December 2016 are disclosed in section 1.1 (MLP Group S.A. shareholding structure).

#### Long-term and short-term investments

	<i>as at 31 December</i>	2016	2015
<b>Long-term investments</b>		<b>79 408</b>	<b>82 674</b>
Loans granted to related parties		79 408	82 674
<b>Short-term investments</b>		<b>1 068</b>	<b>19 132</b>
Loans granted to related parties		1 068	19 095
Loans granted to other entities		-	37
<b>Total long-term and short-term investments</b>		<b>80 476</b>	<b>101 806</b>

As at 31 December 2016, the Company recognized long-term and short-term investments from loans granted to related parties in the amount of PLN 80,476 thousand, whereof PLN 44,065 thousand (including long-term portion in the amount of PLN 43,338 thousand) represents the loans granted to Fenix Polska Sp. z o.o.

## Cash

	<i>as at 31 December</i>	<b>2016</b>	<b>2015</b>
Cash on hand		11	10
Cash in bank		24	13
Short-term deposits		2 070	10 229
<b>Cash and cash equivalents, the amount presented in the separate statement of financial position</b>		<b>2 105</b>	<b>10 252</b>
<b>Cash and cash equivalents, the amount presented in the separate statement of cash flows</b>		<b>2 105</b>	<b>10 252</b>

As at 31 December 2016, the cash balance amounted to PLN 2,105 thousand, and decreased as compared to PLN 10,252 thousand as at the end of the prior year. The decrease resulted mainly from the payment of the dividend on 25 May 2016 by MLP Group S.A. in the amount of PLN 41,660 thousand.

## Equity

### • Share capital

	<i>as at 31 December</i>	<b>2016</b>	<b>2015</b>
A series shares		11 440 000	11 440 000
B series shares		3 654 379	3 654 379
C series shares		3 018 876	3 018 876
<b>Total</b>		<b>18 113 255</b>	<b>18 113 255</b>
Par value of 1 share		0,25 zł	0,25 zł

As at 31 December 2016, the share capital of the Company amounted to PLN 4,528,313.75 and was divided into 18,113,255 shares entitling shareholders to 18,113,225 votes at the General Meeting. All shares have a par value of PLN 0.25 and have been fully paid.

## Loans and other debt instruments

	<i>as at 31 December</i>	<b>2016</b>	<b>2015</b>
<b>Loans from related parties:</b>		<b>64 096</b>	<b>51 381</b>
• MLP Pruszków I Sp. z o.o.		42 965	41 102
• MLP Spółka z ograniczoną odpowiedzialnością SKA <sup>1)</sup>		-	10 278
• MLP Temp Sp. z o.o. <sup>1)</sup>		10 810	-
• LOKAFOP 201 Spółka z ograniczoną odpowiedzialnością SKA		10 321	-
• MLP Energy Sp. z o.o.		-	1
<b>Loans and other debt instruments</b>		<b>64 096</b>	<b>51 381</b>

Long-term liabilities related to loans and other debt instruments constitute a significant part of the Company's liabilities. These are long-term loans, obtained from related parties.

<sup>1)</sup> As a result of the contribution in-kind made by MLP Spółka z ograniczoną odpowiedzialnością SKA to MLP Temp Sp. z o.o., the loans received by MLP Group S.A. from MLP Spółka z ograniczoną odpowiedzialnością SKA were also transferred.

### 3. 1.2 Selected financial data from the separate statement of profit or loss

Separate statement of profit or loss of MLP Group S.A. for the year ended 31 December 2016 compared to the previous year:

<i>for the year ended 31 December</i>	2016	% sales	2015	% sales	Change %
Revenue	8 225	100%	8 829	100%	-7%
Other operating income	755	9%	516	6%	46%
Selling and administrative expenses	(9 261)	113%	(7 875)	89%	18%
Other operating costs	(111)	1%	(107)	1%	4%
<b>Operating profit/(loss)</b>	<b>(392)</b>	<b>-5%</b>	<b>1 363</b>	<b>15%</b>	<b>-129%</b>
Net financial income	943	-11%	2 085	-24%	-55%
<b>Profit before taxation</b>	<b>551</b>	<b>7%</b>	<b>3 448</b>	<b>39%</b>	<b>-84%</b>
Corporate income tax	(132)	2%	3 354	-38%	-104%
<b>Net profit</b>	<b>419</b>	<b>5%</b>	<b>6 802</b>	<b>77%</b>	<b>-94%</b>

The main sources of the Company's revenue are revenue from management and advisory services provided to related parties.

In 2016, selling and administrative expenses amounted to PLN 9,261 thousand and increased by PLN 1,386 thousand as compared to 2015. Costs of legal and advisory services are the main class of expenses of the Company's current operations.

Among the selling and administrative expenses, there are costs associated with servicing and maintenance of income generating investment properties owned by subsidiaries. The Company recovers the amounts by invoicing these companies for property management.

In 2016, the Company recognized net financial income of PLN 943 thousand, which decreased compared to 2015. This change is mainly due to the higher interest cost (which is related to new loans taken by the Company) as well as lower interest on granted loans (inflows related to repayments of the loans granted by the Company amounted to PLN 26,073 thousand in 2016).



### 3. 1.3 Selected information from the separate statement of cash flows

	<i>year ended 31 December</i>	<b>2016</b>	<b>2015</b>
Net cash flows from operating activities		19	-2 109
Net cash flows from investing activities		23 495	-14 905
Net cash flows from financing activities		-31 661	7 055
<b>Total net cash flow</b>		<b>-8 147</b>	<b>-9 959</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>10 252</b>	<b>20 211</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>2 105</b>	<b>10 252</b>

At the beginning of 2016 cash and cash equivalents amounted to PLN 10,252 thousand, at the end of 2016 balance amounted to PLN 2,105 thousand. It means that between 1 January 2016 and 31 December 2016 balance of cash and cash equivalents decreased by PLN 8,147 thousand.

In spite of the lower result before taxation, when compared to the previous year, in 2016, the Company achieved positive cash flows from the operating activities in the amount of PLN 19 thousand, recording in the current period greater liabilities balance, which shall be repaid in 2017.

In 2016, the Company recorded positive cash flows from investing activities in the amount of PLN 23,495. In the current reporting period, the Company granted less loans, amounting to PLN 1,695 thousand (in 2015, this value equalled PLN 46,087 thousand) and the inflows from the repayment of granted loans amounted to PLN 26,073 thousand.

In 2016, the Company recorded negative cash flows from financing activities in the amount of PLN 31,661 thousand. The surplus of cash outflows with regard to cash inflows is mainly due to the dividend paid by the Company (PLN 41,660 thousand).

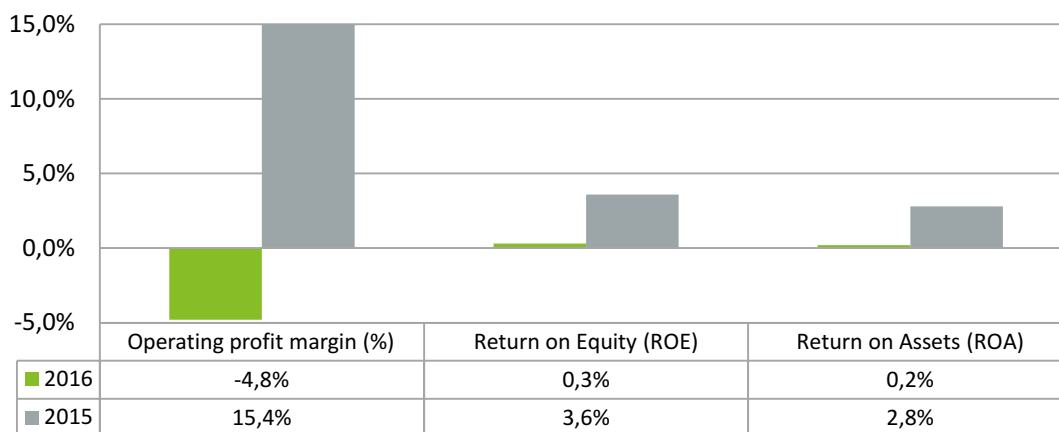
### 3. 2 Forecasts

MLP Group S.A. did not publish forecasts of separate financial results for 2016.

### 3.3 Company's financial management

#### 3.3.1 Profitability ratios

**Profitability ratios**



Profitability analysis was based on the below defined ratios:

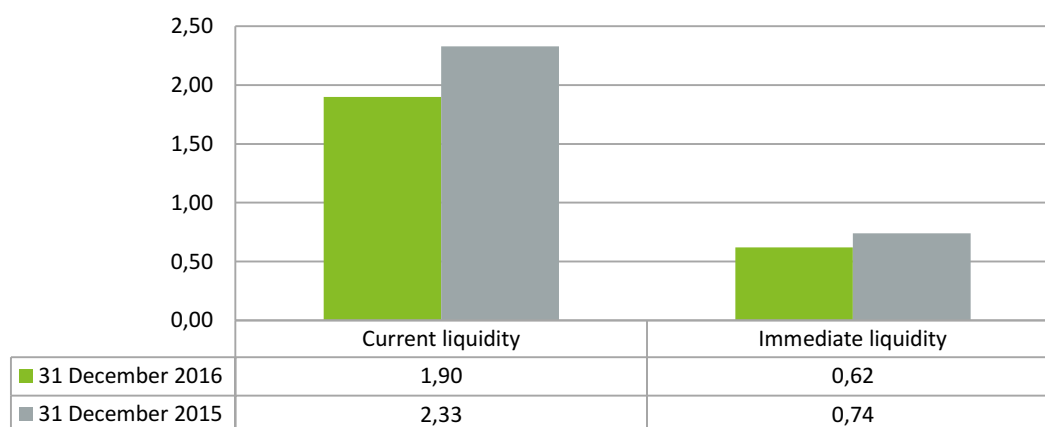
- **operating profit margin:** profit (loss) from operating activities less one-off items / revenue from sale;
- **return on equity (ROE):** net profit (loss) / equity;
- **return on assets (ROA):** net profit (loss) / total assets.

In 2016, the operating profit margin decreased in comparison to 2015 and equalled -4.8%. Its major cause was the loss from operating activity incurred by the Company, which resulted mainly from the higher selling and administrative expenses, when compared to the previous year. Due to the development of the Group and construction of new logistics parks, in 2016, the Company incurred higher costs related to the operation and maintenance of the investment properties generating revenues, being the property of its subsidiaries.

Values of other ratios, compared to 2015, also decreased, which was caused by the lower net profit generated in 2015.

#### 3.3.2 Liquidity ratios

**Liquidity ratios**



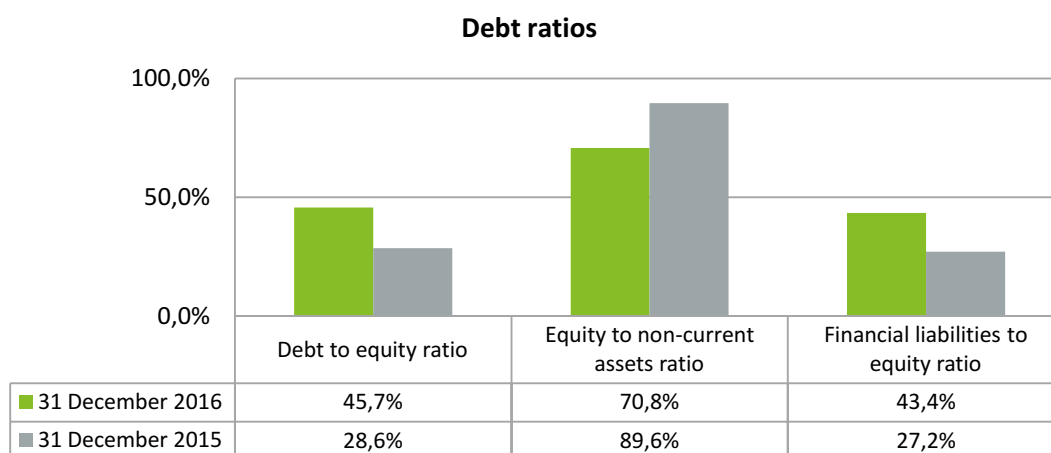
Liquidity analysis was performed based on the following ratios:

- **current liquidity:** current assets / short-term liabilities;
- **immediate liquidity:** cash and cash equivalents / short-term liabilities.

Current liquidity ratio as at 31 December 2016 decreased compared to the end of 2015 (decrease by 0.43). Its cause were significantly lower current assets, which decreased due to the repayment of the loans granted by the Company. As at 31 December 2016, the balance of cash also significantly decreased, compared to the one as at 31 December 2015, which mainly resulted from the payment of the dividend in May 2016.

Immediate liquidity ratio also decreased.

### 3. 3.3 Debt ratios



Debt analysis was performed based on the following ratios presented:

- **debt to equity ratio:** total liabilities / total equity
- **equity to non-current assets ratio:** total equity / non-current assets
- **financial liabilities to equity ratio:** financial liabilities<sup>1)</sup> / total equity

<sup>1)</sup> Financial liabilities include long term liabilities and short term liabilities from loans and other debt instruments.

In 2016, the debt to equity as well as the financial liabilities to equity ratios increased. This was due to lower equity, compared to the one as at 31 December 2015, which decreased as a result of the dividend paid by the Company.

The lower level of equity had also influence on the decrease of the assets to equity ratio in 2016 (by 18.8 pp).

### 3. 4 Information on bank credits, bonds, loans, securities and guarantees

#### 3. 4.1 Concluded and terminated loan agreements

As at 31 December 2016, the Company recognized liabilities due to loans received in 2016:

Borrower	Lender	Date of loan agreement	Amount of loan	The outstanding amount of loan
MLP Group S.A.	LOKAFOP 201 Spółka z ograniczoną odpowiedzialnością SKA	2016-01-12	10 000 000 PLN	10 000 000 PLN

In 2016 the Group repaid the following loans and interest on loans:

Borrower	Lender	Date of loan agreement	Amount of loan repaid	The amount of interest repaid
MLP Group S.A.	MLP Energy Sp. z o.o.	2015-04-23	0 PLN	801 PLN

In 2016, no loan agreements were terminated.

#### 3. 4.2 Concluded and terminated bank credit agreements

MLP Group S.A. is not a party to any bank credit agreement.

#### 3. 4.3 Bonds

The Company does not hold or issue bonds.

#### 3. 4.4 Loans granted

As at 31 December 2016, the Company recognized receivables from loans granted in 2016:

Lender	Borrower	Date of loan agreement granted	Amount of loan	The outstanding amount of loan
MLP Group S.A.	MLP Poznań West Sp. z o.o.	2016-01-27	100 000 PLN	100 000 PLN
MLP Group S.A.	MLP Poznań West Sp. z o.o.	2016-03-30	100 000 PLN	100 000 PLN
MLP Group S.A.	MLP Pruszków I Sp. z o.o.	2016-12-21	1 494 500 PLN	1 494 500 PLN

#### 3. 4.5 Granted and received securities

As at 31 December 2016, the Company did not grant any securities

### **3. 4.6 Granted and received guarantees**

On 16 December MLP Group S.A. concluded a guarantee agreement with Raiffeisen Bank Polska S.A. and MLP Pruszków I Sp. z o.o. ("Borrower"), according to which MLP Group S.A. undertakes to provide financing to the Borrower to cover the Borrower's credit demand to extent that will cause that Debt Service Coverage Ratio (calculated according to loan agreement dated 16 December 2016) will be reinstated to required level.

### **3. 4.7 Other securities**

- The subordination agreement of loan granted to the benefit of MLP Pruszków I Sp. z o.o.
- The subordination agreement of loans granted to the benefit of MLP Teresin Sp. z o.o.
- The subordination agreement of loan granted to the benefit of MLP Poznań II Sp. z o.o.
- The subordination agreement of loan granted to the benefit of MLP Pruszków III Sp. z o.o.
- The support agreement granted by MLP Group S.A. to the benefit of MLP Pruszków IV Sp. z o.o., according to which, if MLP Pruszków IV Sp. z o.o. does not cover from its own resources the exceeded costs related to the real estate construction (A2b building), then the Issuer shall grant an unsecured loan to the above-mentioned company, the repayment of which shall be subordinated to the payment of the liabilities of the company, in the amount not exceeding EUR 68 thousand.
- The support agreement granted by MLP Group S.A. to the benefit of MLP Pruszków IV Sp. z o.o., according to which, if MLP Pruszków IV Sp. z o.o. does not cover from its own resources the exceeded costs related to the real estate construction (A3a building), then the Issuer shall grant an unsecured loan to the above-mentioned company, the repayment of which shall be subordinated to the payment of the liabilities of the company, in the amount not exceeding EUR 193 thousand.

### **3. 5 Assessment of the feasibility of the investment plans**

The Company is in possession of appropriate capital resources to meet its strategic objectives and to finance current operations. Investment projects are realized by special purpose vehicles which are owned by the Company. The Company finances the investments, both those connected with the acquisition of new properties, as well as those connected with expanding currently held logistics parks from its own resources and through long-term debt financing in the form of bank credits and loans. The Company assumes that the share of debt financing in the financing of the planned investment projects will be approximately 70%.

### **3. 6 Evaluation of factors and unusual events affecting the separate financial result for the year**

In 2016, there were no factors or unusual events that would have a significant impact on the separate financial statements of the Company.

### **3. 7 Information on issuing, repurchasing and repaying non-equity and equity securities**

In 2016 the Group did not issue, repurchase or repay non-equity and equity securities.

### **3. 8 Concise description of significant successes achieved or failures occurred in the year ended 31 December 2016**

There were no significant successes achieved or failures occurred other than described in the present Management Board's report.

### **3. 9 Seasonal or cyclical nature of operations**

The Company's operations have neither seasonal nor cyclical nature.

## 4. Statement on Corporate Governance

Statement of MLP Group S.A. with its seat in Pruszków (the "Company", "The Issuer", "Parent Company", "Parent Entity") on selected corporate governance principles set out in the annex to Resolution No. 26/1413/2015 of the Warsaw Exchange Supervisory Board of 13 October 2015, which were not applied within the year ended 31 December 2016, along with an explanation, and reasons for non-compliance.

The Management Board of the Company, appreciating the importance of corporate governance principles to ensure transparency of internal relations and relations of the Issuer with its external environment, in particular the current and future shareholders of the Issuer, fulfilling the duty imposed by § 29 paragraph 3 of the WSE Rules informs that in the financial year ended 31 December 2016, all principles of corporate governance set out in "Best Practice for Companies Listed on the Stock Exchange" were applied with the exception of:

### I. Disclosure Policy, Investor Communications

**Detailed principle No. I.Z.1.11.** information about the content of the company's internal rule of changing the company authorised to audit financial statements or information about the absence of such rule.

Explanation of the reasons for which the Company does not comply with the detailed principle:

Appointment and change of the audit firm falls within the competence of the Supervisory Board, which, in its decisions, always has the best interests of shareholders in mind and does not apply fixed rules on the principles of choice. Publication of information about the lack of rules in this area in the Issuer's opinion should be considered inexpedient.

**Detailed principle No. I.Z.1.15.** information about the company's diversity policy applicable to the company's governing bodies and key managers; the description should cover the following elements of the diversity policy: gender, education, age, professional experience, and specify the goals of the diversity policy and its implementation in the reporting period; where the company has not drafted and implemented a diversity policy, it should publish the explanation of its decision on its website.

Explanation of the reasons for which the Company does not comply with the detailed principle:

The representation of women and men within management and supervisory bodies in the structures of the Company is dependent on the competence, skills and efficiency. Decisions regarding the appointment to management and supervisory positions are not dependent on the gender nor the age of the candidate. The Company therefore is not able to comply diversity policy applicable to the company's governing bodies and key managers.

**Detailed principle No I.Z.1.20.** an audio or video recording of a general meeting

Explanation of the reasons for which the Company does not comply with the detailed principle:

In the opinion of the Issuer, publication of a complete record of The General Meeting of Shareholders proceedings via audio or video, could negatively effect the interest of individual shareholders. Moreover, in the Company's view, compliance with disclosure obligations as set out in applicable laws, in particular, by publication of respective current reports and publications of required information on the Company's website, provide shareholders access to all important information related to shareholders meetings.

## II. Management Board, Supervisory Board

**Recommendation No. II.R.2.** Decisions to elect members of the management board or the supervisory board of a company should ensure that the composition of these bodies is comprehensive and diverse among others in terms of gender, education, age and professional experience.

### Explanation of the reasons for which the Company does not comply with the recommendation:

The representation of women and men within management and supervisory bodies in the structures of the Company is dependent on the competence, skills and efficiency. Decisions regarding the appointment to management and supervisory positions are not dependent on the gender nor the age of the candidate.

**Detailed principle No. II.Z.11.** The supervisory board should review and issue opinions on matters to be decided in resolutions of the general meeting.

### Explanation of the reasons for which the Company does not comply with the detailed principle:

Articles of Association and Rules of the Supervisory Board do not require review of all matters subject to resolutions of the General Meeting. The Company believes that regulations in respect of compliance of the Supervisory Board contained in applicable laws enhanced by the Company's Articles of Association and the rules of the Supervisory Board shall be determined adequate and therefore the Company has decided not to extend regulations in this respect.

## IV. General Meeting, Shareholder Relations

**Detailed principle No IV.Z.3.** Presence of representatives of the media should be allowed at general meetings.

### Explanation of the reasons for which the Company does not comply with the detailed principle:

The General Meetings of Shareholders is attended by persons entitled to attend the General Meeting and individuals who support the General Meeting. According to the Company there is no need to introduce additional obligations to shareholders on enabling participation at the General Meeting of representatives of the media. In the opinion of the Issuer, the applicable regulations adequately regulate the execution of obligations to provide information imposed on public companies in respect of transparency of issues of general meetings. In case of questions regarding the general meetings addressed to the Company from the media, the Company shall provide appropriate answers.

## V. Conflict of Interest, Related Party Transactions

**Detailed principle No. V.Z.5.** Before the company concludes a significant agreement with a shareholder who holds at least 5% of the total vote in the company or with a related party, the management board should request the supervisory board's approval of the transaction. Before giving its approval, the supervisory board should evaluate the impact of the transaction on the interest of the company. The foregoing does not apply to typical transactions and transactions at arm's-length made as part of the company's operations between the company and members of its group. If the decision concerning the company's significant agreement with a related party is made by the general meeting, the company should give all shareholders access to information necessary to assess the impact of the transaction on the interest of the company before the decision is made.

### Explanation of the reasons for which the Company does not comply with the detailed principle:

The Issuer believes that regulations, in respect of compliance of the Supervisory Board, contained in applicable laws enhanced by the Company's Articles of Association and the rules of the Supervisory Board shall be determined adequate and therefore the Company has decided not to extend regulations in this respect.

## VI. Remuneration

**Recommendation No. VI.R.1.** The remuneration of members of the company's governing bodies and key managers should follow the approved remuneration policy.

Explanation of the reasons for which the Company does not comply with the recommendation:

Remuneration of members of management and supervisory bodies of the Company shall be determined according to the terms of reference, responsibilities and financial performance of the Group. The Company does not intend to introduce a remuneration policy as described in the recommendations of the European Commission, in order to exercise more discretion in this respect.

**Detailed principle No. VI.Z.2.** To tie the remuneration of members of the management board and key managers to the company's long-term business and financial goals, the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years.

Explanation of the reasons for which the Company does not comply with the detailed principle:

In 2014 the Company introduced a cash settled share-based payments program. In moment of introducing this incentive program, "Best Practice of GPW Listed Companies" did not include a rule of minimal period of exercisability of mentioned scheme.

Set of corporate governance principles has been published on the Company's website.



## 4. 1 Equity and shareholders

### 4. 1.1 Shareholders

As at 31 December 2016, MLP Group S.A. was controlled by the majority shareholder of the Company, Cajamarca Holland B.V. headquartered in Delft, which holds 10.319.842 shares of the Company, representing 56.98% of the share capital of the Company and is entitled to 56.98% of the total number of votes at the General Meeting. Cajamarca Holland B.V. is a Dutch holding company.

The following table shows the list of shareholders as at 31 December 2016:

Shareholders	Number of shares	Share in capital	Share in the total number of votes
Cajamarca Holland B.V	10 319 842	56,98%	56,98%
Thesinger Limited	1 920 475	10,60%	10,60%
MetLife OFE	948 387	5,24%	5,24%
Gracecup Trading Limited	641 558	3,54%	3,54%
MIRO B.V.	452 955	2,50%	2,50%
MIRO LTD.	99 170	0,55%	0,55%
Shareholders holding less than 5% of the votes	3 730 868	20,59%	20,59%
<b>Total</b>	<b>18 113 255</b>	<b>100%</b>	<b>100%</b>

The number of shares held by MIRO B.V. has decreased as a result of the settlement of the transaction dated 19 April 2016 which took place in Warsaw. The transaction was a contribution in kind of 552,000 shares, representing 3.05% of the share capital of the Company made by MIRO B.V. seated in Delft, Netherlands to MIRO Ltd. seated in Limassol, Cyprus in exchange for the shares in the Cypriot company.

Miro B.V. seated in Delft, Netherlands is the parent company of MIRO Ltd. seated in Limassol, Cyprus, holding 100 % of shares in its share capital.

As a result of the settlement of the package transaction which took place on 26 April 2016, which was concluded through Pekao Investment Banking S.A. seated in Warsaw, Gracecup Trading Ltd. seated in Nicosia, Cyprus and MIRO Ltd. seated in Limassol, Cyprus, disposed of a total of 905,660 shares representing 5% of the share capital of the Company.

As a result of purchase of the Company's shares on 4 August 2016, MetLife Otworthy Fundusz Emerytalny increased its share in total voting rights on the General Meeting of Shareholders and in the Company's share capital above 5%. Directly before the change of shares MetLife OFE had 870,706 shares representing 4.81% the share capital entitling it to 870,706 voting rights at the General Meeting of Shareholders.

As a result of the above described transaction MetLife OFE owns 948,387 shares representing 5.24% of the share capital entitling it to 948,387 voting rights at the General Meeting of Shareholders, which constitutes 5.24% of the total number of votes.

#### **4. 1.2 Special rights of the Shareholders**

MLP Group S.A. did not issue shares with special rights to their holders.

According to the Articles of Association Cajamarca Holland B.V., shall have a personal right to appoint and dismiss 3 members of the Supervisory Board, including the Chairman of the Supervisory Board, unless the number of shares held by this shareholder falls below 25%, in case of MIRO B.V., if the number of shares held by this shareholder does not fall below 2.5%, the shareholder is entitled to appoint and dismiss one member of the Supervisory Board. The personal rights of the above mentioned Shareholders expire, when the number of shares held jointly by Cajamarca Holland B.V. and Miro B.V. fall below 40% of the share capital.

According to the statements of significant shareholders, they do not have other voting rights.

#### **4. 1.3 Voting rights restrictions**

**Indication of restrictions on voting rights, such as a restriction on the voting rights of holders of a given part or number of votes, time limitation for exercising voting rights or provisions according to which, in cooperation with the Company, the equity rights attached to shares are separated from the ownership of securities.**

There are no restrictions on voting rights in MLP Group S.A.

#### **Restrictions on transfer of ownership of MLP Group S.A. shares**

There are no restrictions on transfer of ownership of MLP Group S.A. shares.

## 4.2 General Meeting of Shareholders

**Method of operation of the General Meeting of Shareholders and its basic rights and the rights of shareholders, and the manner of their execution, in particular those arising from the General Meeting of Shareholders regulations, if such regulations have been passed, unless the information in this regard does not arise directly from the law.**

The General Meeting of Shareholders may be ordinary or extraordinary, and as a body of the Company operates under the regulations of the Commercial Companies Code dated 15 September 2000, (Official Journal of 2000 No. 94, item 1037, with amendments), Articles of Association and the provisions of the Regulation of the General Meeting of Shareholders of MLP Group S.A. dated 2 December 2009.

According to the Articles of Association, subject of the Company's Ordinary General Meeting of Shareholders should be:

- examination and approval of the Management Board's report on the company's activities and the financial statements for the preceding financial year,
- adopting of resolution on the distribution of profit or covering of loss,
- granting vote of acceptance to members of the company bodies confirming the discharge of their duties,
- resolutions of the General Meeting shall decide on matters required by the Commercial Companies Code, unless the Articles of Association states otherwise and it is permitted by law and,
  - appointing and dismissing members of the Supervisory Board, subject to the provisions of the Articles of Association concerning the rules for appointing the members of the Supervisory Board by the individual shareholders,
  - changes to the Article of Association of the Company,
  - establishing the rules and amounts of remuneration of the members of the Supervisory Board,
  - merger or dissolution of the Company and the appointment of liquidators,
  - examination of claims made against the members of the Company's bodies or the Company's founders for compensation for the damage caused by their unlawful conduct.

Resolutions of the General Meeting of Shareholders are not required in the case of acquisition and disposal of investment property, perpetual usufruct or a share in property or perpetual usufruct, as well as the pledge of property or of perpetual usufruct.

The General Meeting is convened by an announcement on the Company's website and in the manner specified for the publication of current information in accordance with the provisions of the Act on Public Offering. The announcement should be made at least twenty-six days before the General Meeting. The General Meeting is convened by the Management Board as ordinary or extraordinary. The ordinary General Meeting of Shareholders shall be held within six months after the end of each financial year. If, however, the Management Board does not convene the Ordinary General Meeting within the prescribed period, the Supervisory Board shall have the right to convene the meeting.

The Management Board shall convene an Extraordinary General Meeting of Shareholders:

- on its own initiative,
- at the request of the Supervisory Board,
- at the request of shareholders representing a total minimum of 20% of the share capital,
- based on a resolution of the General Meeting of Shareholders in accordance with the contents of the resolution and set its agenda.

Besides the individuals referred to in the provisions of the Commercial Companies Code, each Independent Member of the Supervisory Board may demand:

- convening the General Meeting of Shareholders,

- introduction of specific issues to the agenda of the General Meeting of Shareholders.

Removal of items from the agenda of the General Meeting at the request of the person or persons entitled to require their consent.

The Management Board determines the order of the General Meeting of Shareholders.

The Management Board, having received the relevant request, is required no later than two weeks from the date of the relevant request to convene the General Meeting.

In accordance with the Articles of Association, if the Management Board of the Company does not convene an Extraordinary General Meeting of Shareholders within the prescribed period, the right to convene such meeting belongs to the individuals filing for the General Meeting - after receiving authorization from the Registry Court. However, the Supervisory Board may convene an Extraordinary Meeting of Shareholders when a request is submitted to the Management Board.

Resolutions may be adopted, despite the lack of formal convening of the General Meeting, if the entire share capital is represented and none of the participants objected to the General Meeting or the individual items on the agenda.

All shareholders are entitled to attend the General Meeting in person or by proxy. Power of attorney to participate in the General Meeting and exercise voting rights must be granted in writing or in electronic form. Granting power of attorney in an electronic form does not require a secure electronic signature verified by a valid qualified certificate. No restrictions can be made on the right to appoint a proxy at the General Meeting and on the number of proxies.

Only persons who are the Company's shareholders sixteen days prior to the General Meeting of Shareholders are authorized to participate in the General Meeting of Shareholders (registration date of participation in the General Meeting).

Members of the Company's bodies also have the right to attend the General Meeting of Shareholders, including members of the bodies whose mandate expired, but their activity is subject to an assessment of the General Meeting, as well as the individuals designated by the Management Board to support the General Meeting.

As a rule, resolutions of the General Meeting shall be passed by an absolute majority of votes cast, and the voting at the General Meeting is open. A secret ballot shall be ordered for elections and motions for dismissal of members of the Company's bodies or the liquidators, to hold them accountable as well as in personal matters or on request of at least one of the shareholders present or represented at the General Meeting.

General Meetings of Shareholders are held in Warsaw or in the Company's registered office.

#### **4. 3 Policy for amending the Articles of Association**

Amendment of the Articles of Association of MLP Group S.A. in accordance with art. 430 § 1 and art. 415 § 1 of the Commercial Companies Code, requires a resolution adopted by a majority of three quarters of the vote and an entry to the register. In case of a resolution regarding the amendment of Articles of Association concerning increasing the benefits of shareholders or limiting the rights granted to individual shareholders in accordance with art. 354 of the Commercial Companies Code, they require the consent of all the shareholders to which the resolution concerns. The Management Board shall notify the registration court when there is a change in the Articles of Association. MLP Group S.A. General Meeting of Shareholders may authorize a unified text of the changes within the Articles of Association or make other changes specified in the resolution of the General Meeting of Shareholders.

#### 4. 4 Management Board

On 18 April 2016 Ordinary General Meeting of Shareholders adopted a resolution changing the Article of Association of the Company. The change was registered in the court.

According to the Articles of Association, the Management Board consists of one to three members, appointed and dismissed by the Supervisory Board.

In accordance with the Articles of Association, the Management Board's term of office is joint and lasts three years. The President of the Management Board is appointed by the Supervisory Board. The Management Board, as well as its individual members may be dismissed or suspended by the General Meeting of Shareholders.

Current term of the Management Board's office began on 25 June 2015. The Supervisory Board appointed Mr. Michael Shapiro as the President of the Management Board, Mr. Radosław Tomasz Krochta as the Vice-President of the Management Board, and Mr. Tomasz Zabost as Member of the Management Board. In accordance with the provisions of the Commercial Companies Code and the Articles of Association, the three years term of office shall expire no earlier than 28 June 2018. However, the mandates of the members of the Management Board shall expire no later than the date of the Ordinary Meeting of Shareholders when the approval of the financial statements for the year 2017 shall take place.

On 9 June 2016 according to the Resolution of the Supervisory Board, Mr. Radosław T. Krochta was appointed as the President of the Management Board.

On 9 June 2016 according to Resolution of the Supervisory Board, Mr. Michael Shapiro was appointed as the Vice-President of the Management Board.

##### 4. 4.1 Competences of the Management Board

In accordance with the Articles of Association, the Management Board represents the Company in its affairs and in particular is in control of the Company's assets and legal rights of the Company, as well it adopts resolutions and decisions in respect to all matters which are not reserved for the General Meeting of Shareholders or the Supervisory Board.

The President of the Management Board or two members of the Management Board (jointly) have the right to represent the Company. Proxies appointed by the Management Board may also represent the Company within the granted power of attorney. The Management Board may also unanimously decide to grant a power of attorney.

The Management Board should adopt a resolution prior to the following actions:

- issuance of bill of exchange,
  - granting of security for any debt of an other entity, including a subsidiary,
  - establishing a mortgage or other encumbrance on any assets of the Company,
  - signing a contract, which imposes an obligation to provide or a risk to provide by the Company within one year items, services or cash of the amount of 500,000 EUR, unless the agreement was included by the Management Board in the annual financial plan (budget) of the Company and approved by the Supervisory Board,
  - convening the General Meeting of Shareholders or requesting a meeting of the Supervisory Board,
  - filing a petition for cancellation or invalidation of resolutions of the General Meeting of Shareholders,
  - filing for bankruptcy of the Company.
- taking any actions in aim to change of right to authorization or bank approval scheme;
- employing, laying off and defining amount of remuneration of the Company's department directors (departments of: marketing, investments, finance and administration);

- nomination or appointing a member of any body in any entity being under the Company's control
- representing of the Company at General Meetings of Shareholders of the Company's subsidiaries or granting power of attorney at General Meetings of Shareholders of the Company's subsidiaries along with giving instructions regarding way of voting (if applicable);
- participation in other entities, excluding entities belonging to the Group or disposing shares or contributions in other entities, excluding operations within the Group;
- issuance of shares, bonds, warrants, bonds of exchange or change of terms of the Company's bonds' issuance;
- taking on an obligation to purchase or disposal of property, perpetual usufruct of property or its part except from concluding preliminary agreement of purchase or perpetual usufruct of property imposing obligations only on second party of the contract and not including any obligations of the Company to advance payments;
- concluding, modification or termination of agreement concerning: taking a loan, providing bank guarantee, insurance guarantee or bank account, letter of credit or any other financial product, in which parties of the agreement are or will be the Company and domestic bank, foreign bank, credit institution or finance institution in accordance with the Act from 29 August 1997- Bank Law;
- cancelling debts in amount higher than PLN 100,000 or the equivalent in other currency;
- approving annual budgets or long-term financial plans

By the end of the third month after the end of each financial year, the Management Board shall prepare an annual financial statement, that along with the draft of the resolution on the distribution of profit and the opinion and report of the auditor are submitted to the Supervisory Board in order to examine the documents before the General Meeting of Shareholders.

#### **4. 4.2 Principles of operation of the Management Board**

The Management Board operates under the Articles of Association, Rules of the Management Board and the Commercial Companies Code.

Rules of the Management Board regulate the issues related to the organization of the meetings, and decision-making of the Management Board. In accordance with the Rules of the Management Board, the Board meetings take place when necessary but no less than twice a month.

The Management Board adopts resolutions at the meetings, however the members of the board may participate in a meeting by means of direct communication and cast their votes by mail, fax or by phone. In addition, the Management Board members may participate in adopting resolutions by casting their votes in writing through another member. A resolution may be adopted without a meeting or in the form of a written ballot if it is approved by all members of the Management Board.

The Rules define ways for declaration of will in the name of the Company. It is possible to make statements via email in cases where the nature or content of such legal relation is permitted. Provision of the Regulations also clarify granting and revoking of the power of attorney - the Management Board grants the power of attorney at the meeting with all the members present. It is also possible to grant a power of attorney to the meeting held through distant communication. Regulations regulate the issues of making resolutions, allowing for the possibility of adopting a resolution by circulation.

#### 4. 4.3 Composition of the Management Board

As at 31 December 2016, the Management Board consisted of three members.

The following table provides information on the members of the Management Board, their position, the date of accession to office, and the date of expiry of the current term of office.

Name	Surname	Position	Date of last appointment	Expiry of the current term
Michael	Shapiro	Vice-President of the Management Board	9 June 2016	25 June 2018
Radosław Tomasz	Krochta	President of the Management Board	9 June 2016	25 June 2018
Tomasz	Zabost	Member of the Management Board	25 June 2015	25 June 2018

##### **Radosław T. Krochta - President of the Management Board**

Mr. Radosław T. Krochta graduated from Management and Banking College in Poznań (Finance). In 2003 he completed postgraduate studies in Management at Nottingham University and a MBA postgraduate program. He has many years of financial experience in Poland, Eastern Europe and the United States. From 2001 to 2004 he held the position of CFO at Dresdner Bank Polska S.A. He was also the Director of the Department of Strategic Consulting at Deloitte Advisory and previously worked as a manager at PWC in Warsaw and in the United States. In 2010, he joined MLP Group S.A. and currently serves as the President of the Management Board.

##### **Michael Shapiro - Vice-President of the Management Board**

Mr. Michael Shapiro has over twenty years of experience in the real estate sector. He graduated from the Faculty of Management and Industrial Engineering at the Israel Institute of Technology in Haifa. In the years 1957-2000, Mr. Shapiro served as Chief Executive Officer and managed Miro Engineering Ltd and S.M. Shapiro Engineers Ltd. Since 1995, he has been the President of MLP Group S.A. He is responsible for the current development and commercialization of the Group's logistics parks and for the investment in surplus land held by the Group.

##### **Tomasz Zabost - Member of the Management Board**

Mr Tomasz Zabost graduated from the Civil Engineering Department at the Warsaw university of Technology. He completed also various courses and trainings in the field of management. He has over 20 years of experience in commercial property management. He specializes in asset management at every level of an investment project. Previously he was responsible for completion of new real estate projects, starting from investment strategy, i.e. selecting a developer, land, contractors, suppliers, architects, engineers and consultants. He was also responsible for preparing a budget and feasibility plans. For the previous 8 years Tomasz Zabost was employed in ProLogis, from 2007 he was a Vice President-Head of Project Management. Earlier he supported a Spanish construction corporation Dragados, in its efforts to enter the Polish market. During his career he also cooperated with other developers and contractors of warehouse and production space in Poland and overseas. He worked for Liebrecht&Wood, E&L Project and Ghelamco Poland.

## 4. 5 The Supervisory Board

The Supervisory Board exercises permanent supervision over the activities of the Company in all areas of its operations.

The Supervisory Board consists of six members, including the Chairman and the Co-Chairman, appointed for a term of 3 years. At least two members of the Supervisory Board are Independent Members.

The term of the current office of the Supervisory Board started on 25 June 2015 and expires on 25 June 2018. However, the mandates of the members of the Supervisory Board shall expire no later than the date of the Ordinary Meeting of the Shareholders when the approval of the financial statements for the year shall take place.

As at 31 December 2016, the Supervisory Board consisted of six members.

Subject to personal rights, as described in point. 4.1.2 of the report (in Significant Shareholders chapter), the members of the Supervisory Board are appointed and dismissed by the General Meeting of Shareholders.

### 4. 5.1 Competences of the Supervisory Board

The Supervisory Board exercises permanent supervision over the activities of the Company in all areas of its operations, however apart from matters, referred to the provisions of the Commercial Companies Code, the specific rights assigned to the Supervisory Board, in accordance with Art. 21.2 of the Articles of Association are as follows:

- giving consent to the issuance of shares within target capital, including the rules for the determination of the shares issue price and deprivation of pre-emptive rights if the resolution of the Management Board provides such possibility;<sup>1)</sup>
- approving annual budgets and development plans of the Company and the Group
- granting the Company the right to obtain contractual obligations or making expenditures in single or related transactions which are beyond the normal business activities with a value exceeding PLN 5,000,000
- approval of acquisition, disposal and liquidation of the Company's shares in other companies, with the exception of the transactions within MLP Group S.A. Capital Group and transactions included in the annual budget for Company's financial plan
- approving purchases or sales of investment property (including the right of perpetual usufruct) with a value exceeding PLN 1,000,000, with the exception of transactions included in the annual budget or the Company's financial plan
- appointing and dismissing members of the Management Board
- appointing the auditor to audit or review the financial statements of the Company,<sup>1)</sup> concluding agreements between the Company and members of the Management Board
- adopting resolutions concerning consent for agreements between the Company and a shareholder of the Company holding, directly or indirectly, shares exceeding 5% of the total number of votes at the General Meeting
- expressing consent for the members of the Management Board to engage in the Company's competitive interests personally, as a partnership, as members of companies bodies, as well as shareholders of companies if their participation in the share capital of these companies is greater than 5%, or if the Article of Association or under an agreement are entitled to appoint at least one member of the Management Board or Supervisory Board
- adopting resolutions on determining the remuneration rules and amounts of the members of the Management Board,<sup>1)</sup>



- approval of the Rules of the Board, <sup>1)</sup>
- examination, reviewing and evaluating issues which are subject to resolutions of the General Meeting of Shareholders
- expressing the consent for the mortgage pledging of real estate property, perpetual usufruct or shares in the Company's real estate for an entity other than a bank.

<sup>1)</sup> Resolutions on the matters described above in selected points require the approval of at least one of the Independent Members of the Supervisory Board.

To exercise its competence, the Supervisory Board may examine all documents, reports and explanations of the Board of Directors and Company's employees, as well as, review the Company's assets.

The Supervisory Board may express all opinions regarding the Company and present them to the Management Board as proposals and initiatives. The Management Board has a duty to notify the Supervisory Board on their position regarding the opinion, proposal or initiative no later than two weeks from the date of filing, unless the opinion of the Supervisory Board is incompatible with the proposal or initiative of the Management Board, no consent is required for any of the Company's bodies proceed in action.

Independent Members of the Board have the right to convene the General Meeting of Shareholders, or to introduce specific issues on the agenda of the General Meeting.

#### **4. 5.2 Principles of operation of the Supervisory Board**

The Supervisory Board operates under the Rules of the Supervisory Board adopted by the General Meeting which defines its competence, organization and manner of operation. According to the Rules, the Supervisory Board performs its tasks jointly, at the meetings. Meetings are held when necessary, but not less frequently than once every two months and shall be held at the registered office of the Company. The rules allow the possibility of holding meetings with the use of means of distant communication.

The Supervisory Board shall adopt resolutions if the meeting is attended by at least half of its members, and all members are invited at least 7 Business Days prior to the meeting. However, in urgent matters the Chairman of the Supervisory Board, or under the his authority another Member of the Supervisory Board may convene a meeting of the Supervisory Board in a shorter period of time. As a rule, the Supervisory Board resolutions shall be passed by an absolute majority of votes. In case of equal number of votes, the Chairman of the Supervisory Board is decisive.

As a rule, members of the Supervisory Board may participate in adopting resolutions by casting their votes in writing through another member of the Supervisory Board. It is permissible to hold meetings in writing. The Supervisory Board meeting may be held with the use of direct communication at a distance. The detailed description of holding meetings and passing resolutions using means of direct communication at a distance is specified in the Rules of the Supervisory Board. The Supervisory Board meets as the need arises, but not less frequently than once a quarter.

At least two members of the Supervisory Board appointed by the General Meeting of Shareholders must be Independent Members of the Supervisory Board, of which at least one should be qualified in the field of accounting or auditing as referred to in the Act of Certified Auditors. The criteria for independence is set forth in Art. 18.12 of the Articles of Association.

#### 4. 5.3 Composition of the Supervisory Board

As at 31 December 2016 the composition of the supervisory bodies of the parent company was as follows:

Name	Surname	Position	Date of appointment	Expiry of the current term
Shimshon	Marfogel	President of Supervisory Board	25 June 2015	25 June 2018
Eytan	Levy	Vice-President of Supervisory Board	25 June 2015	25 June 2018
Yosef Zvi	Meir	Member of Supervisory Board	25 June 2015	25 June 2018
Guy	Shapira	Member of Supervisory Board	25 June 2015	25 June 2018
Jacek	Tucharz	Member of Supervisory Board	25 June 2015	25 June 2018
Maciej	Matusiak	Member of Supervisory Board	25 June 2015	25 June 2018

##### **Shimshon Marfogel - President of the Supervisory Board**

Mr. Shimshon Marfogel has graduated from the Hebrew University of Jerusalem, earning a B.A. (Bachelor of Arts) at the Faculty of Accounting and Economics.

Mr. Shimshon Marfogel has worked for Israel Land Development Company Ltd in Tel Aviv. Since 1985 as: chief accountant (in 1985-1986), vice president and chief accountant (1986-2001), CEO (in 2001 -2004), since 2004, Mr. Shimshon Marfogel serves as vice president of the management board of Israeli Land Development Company Ltd. based in Tel Aviv.

##### **Eytan Levy - Vice-President of the Supervisory Board**

Mr. Eytan Levy has graduated from Bar-Ilan University in Ramat Gan, earning a B.A. (Bachelor of Arts) in Political Science.

From 1982 to 1991 he held various managerial positions, including director of the department of special products, the vice president responsible for marketing in Israel National Post Authority, based in Jerusalem. In 1991-1997, he held various managerial positions, including director of safety and logistics, vice-president of marketing and sales in the Israel National Telecommunications Company, based in Jerusalem. In 1998-2000, he was a partner in the Israeli office of the American law company Gerard Klauer & Mattison, based in Tel Aviv. Since 1997, he is the director of the Israeli law Percite Technology, headquartered in Rosh Ha `Ayin.

##### **Yosef Zvi Meir - Member of the Supervisory Board**

Mr. Yosef Zvi Meir graduated from the Hebrew University of Jerusalem, earning a BA (Bachelor of Arts) at the Faculty of Economics. In addition, Mr Yosef Zvi Meir completed postgraduate MBA studies at Darby University, in Israel.

Since 1977, Mr. Yosef Zvi Meir has worked in Israel Land Development Company Ltd. based in Tel Aviv, as Chief Financial Officer.

##### **Maciej Matusiak - Member of the Supervisory Board**

Mr. Maciej Matusiak studied at the Technical University of Łódź, has the title of Chartered Financial Analyst (CFA) and is a licensed stock broker. In 1995-1996 he worked at Daewoo Towarzystwo Ubezpieczeniowe S.A. in the Department of Capital Investments as a securities dealer and a financial analyst. In 1996-1998 he worked in PKO BP Bankowy Dom Maklerski as a financial analyst. From 1998 to 2002 he worked in the Commercial Union Group - first in the Investment Department of Commercial Union Polska - Towarzystwo Ubezpieczeń na Życie S.A. and the Commercial Union Investment Management (Polska) S.A. Since 2006, he serves as CEO of Artemis Investment Sp. z o.o. in Warsaw.

#### **Jacek Tucharz - Member of the Supervisory Board**

Mr. Jacek Tucharz has graduated from the Warsaw School of Economics, Foreign Trade department and obtained postgraduate degree in the Warsaw School of Economics in the study of Marketing Policy. He is a licensed stock broker. In 1993, he joined the Brokerage Office of Powszechny Bank Kredytowy from the beginning as a specialist, later as a stock broker. From 1996 to 1999 he was associated with the XI NFI. Then he held the position of Investment Director at Trinity Management and PZU NFI Management. In 2005 he was appointed a Vice-President of the Management Board in ZELMOT S.A., and in 2006 he was appointed a CFO in Hygienika S.A. Since 2006 he runs his own business.

#### **Guy Shapira - Member of the Supervisory Board**

Mr. Guy Shapira graduated with honours from Interdisciplinary Center Herzliya (IDC) in Israel with a bachelor degree on the faculty of Business and Administration (B.A.) and Law (LL.B) with specialization in International Business Law. Mr. Shapiro is also an Israeli licensed lawyer. Before appointment to the Supervisory Board, Mr. Guy Shapira worked for Steinmetz, Haring, Gurman & Co. lawfirm in Israel, and was a member of the Audit Committee of Students Association at IDC.

According to the statement of Mr. Guy Shapira, he runs business outside of the Company, which is not competitive with the business of the Company and he does not participate in any competitive company as a partner in a partnership or as a member of the authority of a rival company or a member of the governing body of any competitive legal entity and is not entered in the Register of Insolvent Debtors maintained pursuant to the provisions of the Law by the National Court Register (KRS).

#### **4. 5.4 Committees of the Supervisory Board**

On 15 January 2014, a meeting of the Supervisory Board was held where an Audit Committee was established which is responsible for overseeing the Company's financial situation. Detailed tasks and functioning of the audit committee was determined by the terms and conditions annexed to the Rules of the Supervisory Board. The role and responsibilities of the Audit Committee are to supervise, monitor and advise the Management Board and the Supervisory Board on all matters related to risk management, audit, financial control and compliance with relevant laws and regulations. The Audit Committee evaluates the performance of the independent auditor and the associated costs.

Composition of the Audit Committee as at 31 December 2016 is as follows:

- Jacek Tucharz,
- Eytan Levy,
- Maciej Matusiak.

As at 31 December 2016 the person who fulfils requirements of art. 86 paragraph. 4 of the Act of Certified Auditors (i.e. accounting or auditing qualifications) and the criteria for independence, was Maciej Matusiak.

In addition, the Supervisory Board may appoint, among its members, the remuneration committee which prepares proposals for the remuneration of the members of the Management Board and will supervise the execution in the Company's incentive plans which will entitle its participants to acquire shares or instruments related to the Company. The remuneration committee will consist of 2 to 3 members.

As at 31 December 2016, there is no remuneration committee in the Supervisory Board of the Issuer.

#### 4. 6 Remuneration and employment contracts of the members of the Management Board, the Supervisory Board

##### 4. 6.1 Remuneration, bonuses and benefits received by the members of Management Board and the Supervisory Board

###### Management Board remuneration in 2016

• <b>Remuneration and other benefits:</b>	
Radosław T. Krochta	554
Michael Shapiro	393
Tomasz Zabost	188
• <b>Cash settled share based payments</b>	630
	<b>1 765</b>

Total received and due remuneration of the Management Board amounted to PLN 1,765 thousand.

Members of the Management Board received remuneration from the Company and its Subsidiaries: (i) in respect of the employment agreements, (ii) for providing of services in favour of the Group, (iii) in respect of service as a member of the Management Board, (iv) in respect of cash settled share-base payments.

###### Supervisory Board remuneration in 2016

Maciej Matusiak	30
Jacek Tucharz	30
Eytan Levy	30
Shimshon Marfogel	30
Yosef Zvi Meir	30
Guy Shapira	30
	<b>180</b>

Total remuneration received by the Supervisory Board amounted to PLN 180 thousand.

##### 4. 6.2 Agreements with the members of Management Board in case of resignation, dismissal

The President of the Management Board, Radosław T. Krochta, is employed under an employment agreement. The terms of the employment agreements allow members of the Management Board to receive a salary during the notice period.

The Vice-President of the Management Board, Michael Shapiro, is employed in the subsidiary MLP Pruszków I Sp. z o.o. under an employment agreement. Under the terms of the employment agreement, it allows Mr. Michael Shapiro to receive a salary during the notice period.

Member of the Management Board, Tomasz Zabost, is employed by the Company on the basis of an employment agreement. Under the terms of the employment agreement, the dismissal of individual members of the Management Board entitles them to receive a salary during the notice period.

#### **4. 7 Shares held by members of the Management Board and the Supervisory Board**

Michael Shapiro is indirectly in possession, through a company MIRO B.V. in which he controls 100% of shares, of 2.5% of the share capital of MLP Group S.A. and also through 25% of the share capital which MIRO B.V. holds of Cajamarca Holland B.V. which economic participation in the MLP Group S.A. share capital of 14.25%. In total, the economic effective participation in MLP Group S.A. share capital is 16.75%.

Members of the Supervisory Board are not in a direct possession of MLP Group S.A. shares.

#### **4. 8 Management stock options program**

In MLP Group S.A. there is no management stock option program. However, in 2014, a cash settled share based payments program was introduced. Details of the program are disclosed in note 20 of the Consolidated Financial Statements for the year ended 31 December 2016.

#### **4. 9 Changes in the core principles of management of the Company**

In 2016, there were no major changes in the core principles of management. The development of the organization enforces improving management procedures applicable in MLP Group S.A.

#### **4. 10 The system of internal control and risk management**

The Management Board is responsible for the internal control system and its effectiveness in the management of the financial statements and reports prepared and published in accordance with the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by law of Non-Member States (Official Journal 2014 item 133 with amendments).

Efficient and appropriate operation of the system of internal control and risk management is ensured by the following features:

- established organizational structure,
- competence, knowledge and experience of the persons involved in the internal control,
- supervision of the management of the system and regular evaluation of the Company's operations,
- verification of reports by the auditor.

Similar characteristics of the internal control in several areas, such as:

- operating activities,
- financial activities,
- reporting process (including preparation of the financial statements),
- process analysis of the costs and expenses associated with the project, costs and expenses of general management and sales and costs and expenses for the operation of the rented area,
- risk management,

not only guarantee the efficiency of the internal control system but also supports the management of the entire Group.

The main features of the system of internal control and risk management in relation to the preparation of individual and consolidated financial statements, are mainly:

- established organizational structure,
- qualified staff,
- direct supervision of management,
- verification of the financial statement by an auditor.

Persons responsible for the preparation of financial statements in the context of financial reporting and the Company's management consists of highly qualified staff in the Financial Division, managed directly by the CFO and indirectly by the Management Board.

In accordance with applicable laws, the Company's financial statements are reviewed or audited by an independent auditor of renowned and high qualification. During the audit performed by the independent auditor, the Financial Division employees involved in the process of preparation of the report, are available for any explanations.

The controlling process in the Company, the primary and significant part of which is the internal control, is based on a system of budgets. The Company performs the annual process of updating the plans for the short, medium and long term and creates a detailed budget for the coming year in terms of:

- construction projects,
- operational projects,
- general and administrative expenses and sales.

The financial and accounting system of the Company is the source of data for the entire reporting system of the Company, that is:

- for the financial reporting process,
- periodic reports,
- management reporting system.

After the closure of the accounts, reports on the realization of budgets and forecasts are prepared. In respect of ended reporting periods, the Group's financial results are compared to the budget assumptions.

A key element of this process is to monitor the implementation of the deviations from the plan and explain the reasons for their occurrence. Observation and learning about the causes helps to optimize the Group's operations and minimize potential risks. Due to the nature of the industry, analyzes are conducted on many levels - not only individual cost groups are analyzed, but also separate individual investment projects. On the basis of these reports during the year the Management Board analyzes current financial result comparing them with the adopted budgets.

Effective internal control (within the reporting system) is an essential step in the identification of risks and the changes in management. Besides the reporting system, effective risk analysis is also necessary. Therefore, the key measure in preventing exposure to risk is to properly assess the potential and current investment control. Any possible changes in the budgets of investment projects are transferred to the profit forecast and forecast of cash flow, in order to take a look at the problem globally and not only eliminate the risks associated with the project, but also liquidity risk, exchange rates, etc. Such broad area of management and monitoring of risks and internal controls in all areas relevant to the organization, largely eliminates most of the risks to which the Group is exposed.

#### 4. 11 Audit firm

On 5 December 2016, the Supervisory Board, acting on the basis of article No. 21.2 g) of the Company's Articles of Association appointed KPMG Audit Spółka z ograniczoną odpowiedzialnością spółka komandytowa with its seat in Warsaw, as the entity authorized to audit separate and consolidated financial statements for the years: 2016 and 2017, and perform the interim review of separate and consolidated financial statements for year 2017.

Headquarters of KPMG Spółka z ograniczoną odpowiedzialnością spółka komandytowa is seated at 00-189 Warsaw, 4A Inflancka Street. KPMG Spółka z ograniczoną odpowiedzialnością spółka komandytowa is registered on the list of entities entitled to audit financial statements under number 3546.

The agreement with the entity authorized to audit financial statements was concluded by the Management Board for the time required to perform the tasks assigned to the auditor.

The remuneration for audit and review of financial statements and other services is presented in the table below.

<i>as at</i>	31 December 2016	31 December 2015
Audit of the annual financial statements	95	96
Review of the consolidated and separate financial statements	60	60
Other services, including audit and review of the group reporting package	144	173
<b>Total remuneration</b>	<b>299</b>	<b>329</b>

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**Radosław T. Krochta**  
*President of the Management  
 Board*

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**Michael Shapiro**  
 Vice-President of the  
 Management Board

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**Tomasz Zabost**  
*Member of the Management  
 Board*

Pruszków, 14 March 2017