EUROCASH GROUP S.A.

Consolidated annual report for the year 2018

KOMORNIKI, 15th March 2019

CONTENTS

PART A

REPORT OF THE MANAGEMENT BOARD

FOR THE PERIOD FROM 1 JANUARY 2018 TO 31 DECEMBER 2018

NOTE FROM TRANSLATOR
This document is a translation from Polish.
The Polish original is the binding version and shall be referred to in matters of interpretation.

KOMORNIKI, 15th March 2019

CONTENTS

LETTER FROM THE PRESIDENT

DEAR SHAREHOLDERS, PARTNERS, EMPLOYEES, CLIENTS

Last year was a good year for owners of independent stores in Poland. Many of them outperformed large supermarket and hypermarket chains in terms of sales growth, nearly cathing up with discount chains, which gradually slowed down in the second half of the year. Shoppers are also increasingly favouring local shops. Their owners and managers customize their offer to their clients' needs much better than larger stores. Moreover, they can increasingly rely on our employees who, thanks to their creativity but also diligence and ambition, become equal partners for entrepreneurs from all over Poland. Together we initiate positive changes in the immediate surroundings of independent retail stores.

Although gradual, these changes are not surprising to us. We have been supporting independent entrepreneurs for many years in their competition against discount chains. Creating greater awareness amongst producers about the advantages of independent stores, which have direct access to consumers in all parts of the country, has always been important for us. We still have much to do in this respect, but our work is slowly yielding results. Education is also an important element of our support. So far, we have trained over 62 000 people at the Eurocash Skills Academy , including over a dozen thousand last year alone. Moreover, for owners of independent stores we provide access to state-of-the-art tools that are more advanced than those used by marketing directors at the largest retail chains.

Eurocash.pl is one of such tools, but it is also an entirely new business concept, which allows entrepreneurs to adapt their offering to evolving needs of local consumers. Store owners are able to quickly check the characteristics of residents in a given area. Thanks to Eurocash.pl platform and mobile app, they are able to increase their store's cost efficiency, which ultimately translates into more time devoted to customers. In 2018, the platform was available mostly to customers of Eurocash Dystrybucja. Soon, however, it will be available to all of Eurocash Group's customers. With it, this market, often described as traditional, is becoming one of the most digitised in the world.

Looking at Eurocash's results, I feel comfortable . I see how our company is developing in many areas. I see diversification, for example at the business level: our companies are at various stages of their development. They are managed by both experienced managers with years of expertise as well as young, ambitious and creative 20-odd-year-olds. They are managed by both women and men, those who raised through the ranks at Eurocash and those who just joined us.

This diversity means that we are better prepared for the future. The wholesale business last year increased in scale by nearly PLN 1 billion. Moreover, we were able to considerably improve efficiency, which translated into profitability growth. We managed to do all this despite rather strong cost pressure. We are successfully resolving problems from previous years. Our initiatives undertaken in recent years weighed on our financial performance, but we are starting to see results.

The retail business is in an entirely different place. In a rather short period of time, we built up the scale of our small supermarket chain, which will eventually operate under the Delikatesy Centrum brand, to more than 1 500 stores. The chain is operating nationwide and is the largest in the country, with approx. PLN 7.4 billion in total retail sales.

At this point, we are in the process of integrating and merging three independently operating retail companies. This process will continue through 2019, but I am confident that we are heading in the right direction. This integration will result in short-term pressure on the retail business's profitability, but we are determined to do it right, in order to deliver a convenient offer to our consumers and be ready for further expansion together with our franchisees.

The retail business is also an excellent tool for supporting independent entrepreneurs in Poland. Thanks to the experience gained through running retail stores, we have created a fresh product delivery project, with daily deliveries to stores before 11am, which considerably improved product quality. This project will eventually be available to all customers of Eurocash Group's wholesale segment. Another solution developed at Delikatesy Centrum is an AI-supported customer relationship management system, 'Delikarta,' which we want to eventually deploy at stores operated by all of Eurocash Group's customers, under a name of their choice.

2018 was also a year of further progress on our other projects. Following the success of Faktoria Win, PayUp and the fresh product delivery project, we see that taking risk pays off. Thanks to these solutions, our customers increase their competitiveness, and running a retail business is becoming increasingly attractive to young people. Duży Ben, Kontigo, abc na kołach continue their development as part of franchise systems. With all these options, local entrepreneurs can freely diversify their businesses. I believe that these projects, like those before them, will break even in the near future. However, at this point further development in new regions is the most important goal.

We are taking risks, developing and investing. We adopt a long-term perspective to look at the small format store market which is still underappreciated by many, and we are changing its shape. But most importantly, we are doing all that while maintaining the Group's stable financial position. During the year, we acquired Mila, paid a dividend and continued investing in logistics, IT systems and store renovations. Despite these expenditures and investments, we ended the year with net debt at a level similar to last year's. Moreover, we are developing financial instruments that support the financial liquidity of our counterparties, customers and suppliers. Although we did not improve our profitability this year significantly, I am confident that both our customers and us are in a much better competitive position than a year ago.

Another year of hard work is ahead of us, with the difficult task of further improving the efficiency of our wholesale business and, most importantly, integrating our retail business. The direction remains the same. We want to support independent entrepreneurs in Poland. We want to provide them with solutions that are already today changing the behaviours of shoppers and attracting them to small-format stores. I am certain that with hard work we are able to strenghten this trend in the coming years. I believe that we will continue to overcome any obstacles on the road, and the direction we have taken will take us to our destination.

Sincerely,

Luis Amaral

CEO, Eurocash Group

1. SUMMARY OF EUROCASH GROUP OPERATIONS IN 2018

Table 1 *Eurocash Group: Summary of 2018 Financial Performance*

PLN m	2018	2017	Change
Sales revenues (traded goods, materials)	22 832,89	20 849,46	9,51%
Gross profit (loss) on sales	2 881,88	2 465,32	16,90%
Gross profitability on sales (%)	12,62%	11,82%	0,80 p.p.
EBITDA	418,61	246,31	69,95%
(EBITDA margin %)	1,83%	1,18%	0,65 p.p.
EBIT	214,38	62,99	240,31%
(EBIT margin %)	0,94%	0,30%	0,64%
Gross profit	155,55	20,31	665,78%
Net Income	111,65	(29,56)	-477,72%
(Net profitability %)	0,49%	-0,14%	0,63 p.p.

EUROCASH GRUPA

Table 2 *Eurocash Group: Normalized 2018 Financial Performance*

PLN m	2018	2017	Change %
One-off items	**44,75**	**(114,40)**	
PayUp disposal	74,76		
Provision on restructuring costs	(27,00)		
Costs of Mila process	(3,01)		
Cost of potential Vat liabilities		(114,40)	
EBITDA normalized	373,86	360,71	3,64%
(Normalized EBITDA margin %)	1,64%	1,73%	-0,09 p.p.
EBIT normalized	169,62	177,40	-4,38%
(Normalized EBIT margin %)	0,74%	0,85%	-0,09 p.p.
Net profit normalized	66,90	84,84	-21,15%
(Normalized net profitability %)	0,29%	0,41%	-0,12 p.p.
Net profit normalized by tax from PayUp disposal	78,62	84,84	-7,33%
(Normalized by Pay Up tax net profitability %)	0,34%	0,41%	-0,07 p.p.

**excluding impact of the one-offs*

Consolidated sales of Eurocash Group in 2018 amounted to PLN 22 832.89 m and increased by 9.51% YoY. Sales growth was driven mainly by Wholesale segment (PLN +957m in 2018) and consolidation of acquired retail company Mila S.A. (PLN +835m in 2018).

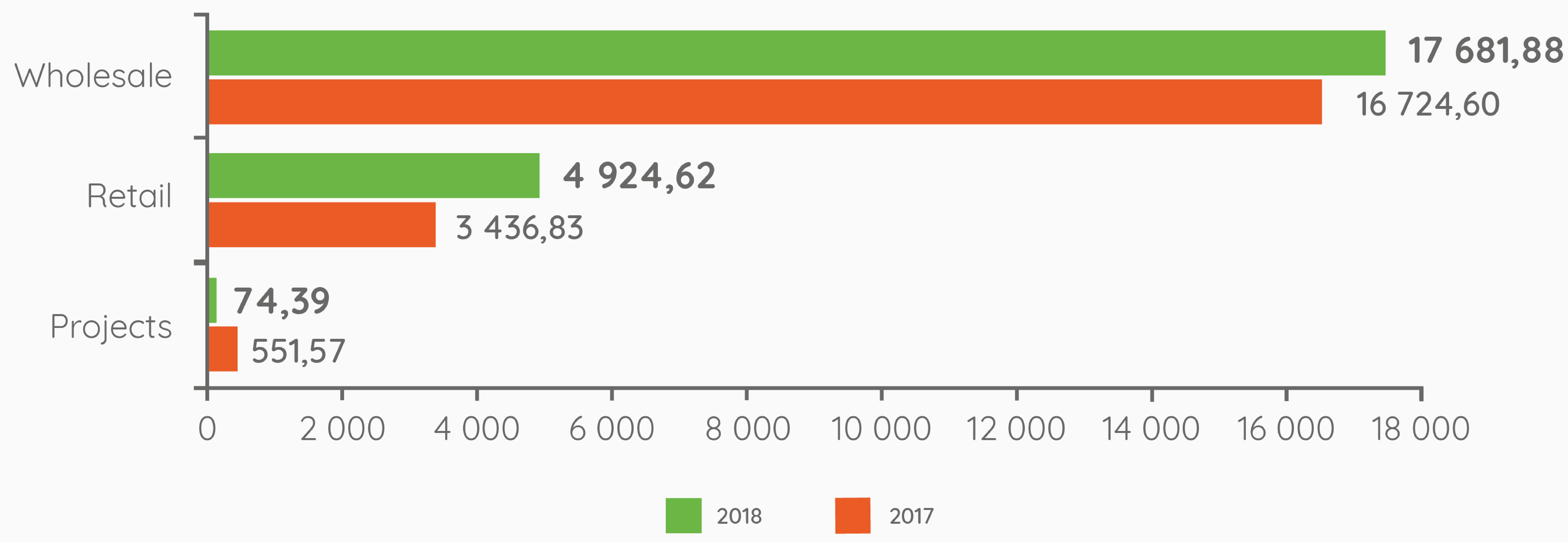
EBITDA normalized in 2018 amounted to PLN 373.86 m compared with PLN 360.71 m previous year (an increase by 3.64%). EBITDA increase was primarily related to the improvement of the wholesale segment's financial results, which were partially off-set by the results of the retail segment being in the process of reorganization and integration.

The net profit normalized in 2018 reached PLN 66.90 m, which means 21.15% decrease YoY. Net profit normalized by income tax on the sale of PayUp amounted to PLN 78.62 m. Normalized net profit in 2018 was impacted by higher depreciation driven by Retail segment and increased net financial costs due to increased leverage driven by acquisition of Mila chain.

As at 31 December 2018, the Eurocash Group's wholesale trade network comprised 180 Cash&Carry warehouses, under which a network of „abc" partner stores was organized, which included 8 708 local grocery stores. In franchise and partner networks cooperating with Eurocash Distribution, there were 5,024 stores associated. The retail network included 1,539 small supermarkets, including 1,328 operating under the Delikatesy Centrum brand and 448 Inmedio press salons.

The sales dynamics divided into individual sales segments are presented in the chart below.

Chart 1 *Eurocash Group: External sales of goods in 2018 according to the segments (PLN m)*

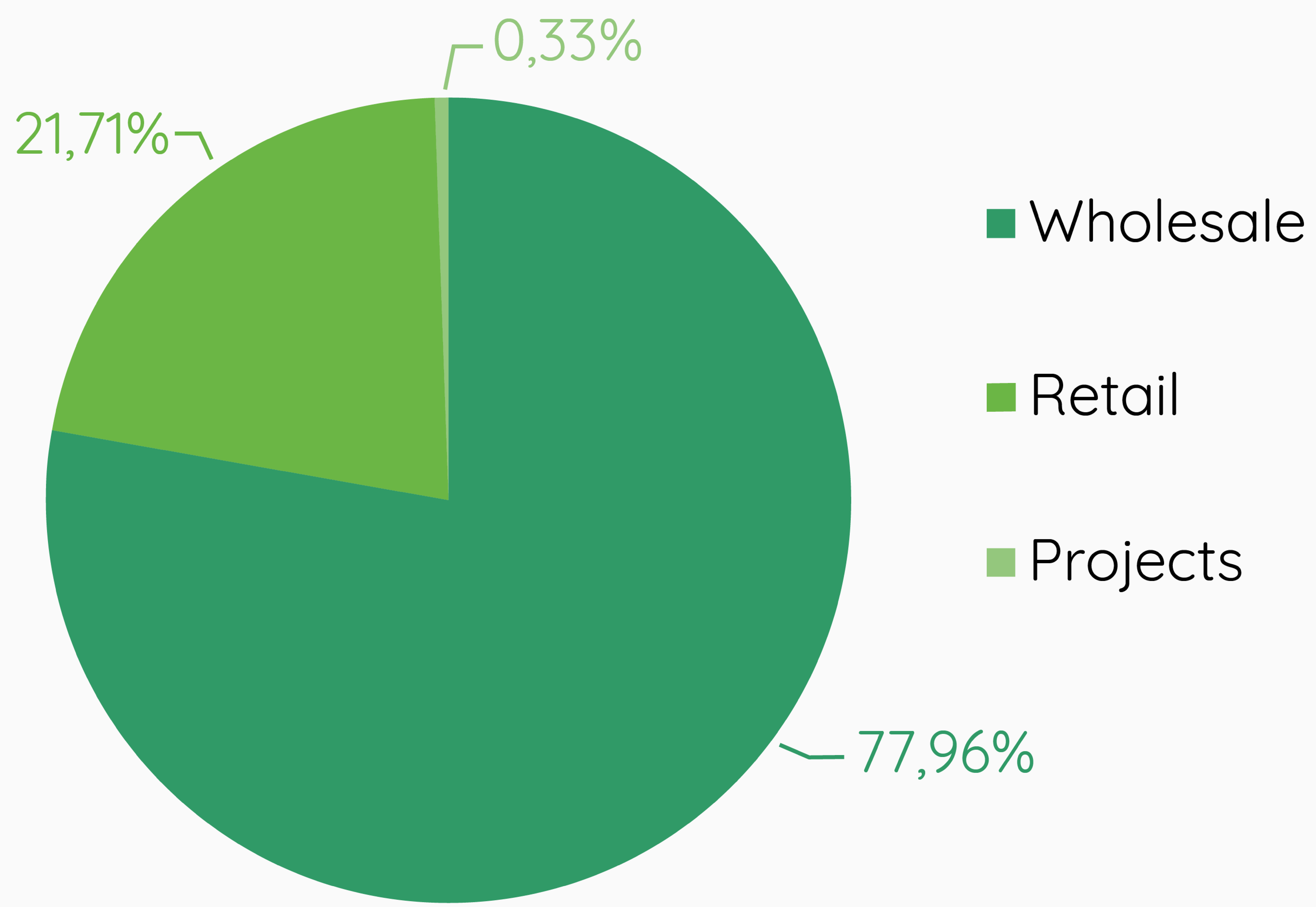


Source: Own study
** Data are presented according to the new division, in force since 2019. The Fresh project is now presented in the Retail segment.*

In 2018 sales of goods in Wholesale segment amounted to PLN 17 681.88 m comparing with PLN 16 724.60 m in previous year which means growth by 5.72%. Retail sales of goods realized by Retail segment in 2018 amounted to PLN 4 924.62 m compared to PLN 3 436.83 m in previous year. The main driver of sales increase in Retail has been development of distribution of fresh products to franchise stores in Delikatesy Centrum chain. In 2018 sales of goods realized by Projects segment amounted to PLN 74.39 m in comparison to PLN 551.57 m last year. Such a significant decline y/y is related to the change in the presentation of the Fresh Project, which after reaching the break-even point in 2H 2018 was removed from Projects segment and is presented now in Retail. Sales of Fresh Project in 2018 amounted to PLN 605.90 m comparing to PLN 488.87 m in 2017.

Below we present the distribution of sales revenues for 2018, split on business segments.

Chart 2 *Eurocash Group: Presentation of the Group's segments by retail and wholesale segments (PLN bn)*

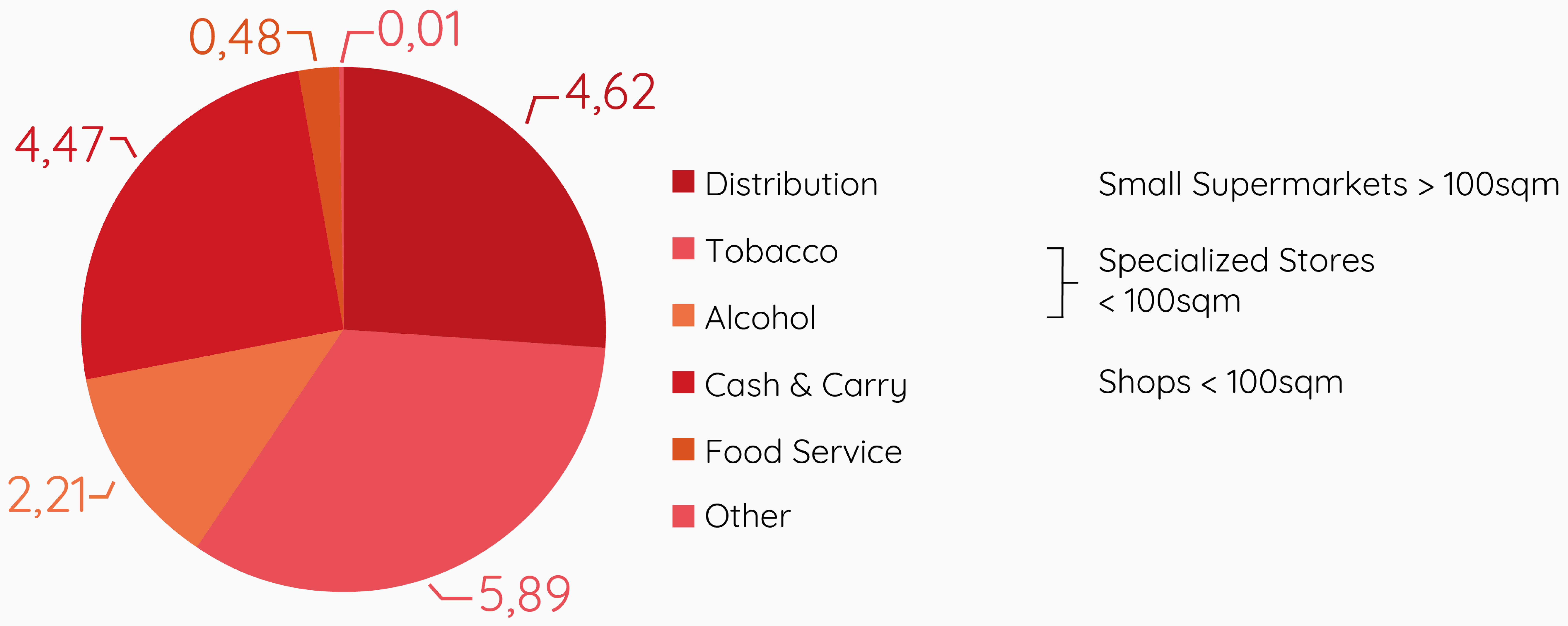


Source: Own study

„ Data are presented according to the new division, in force since 2019. The Fresh project is now presented in the Retail segment."*

The retail segment accounted for nearly 22% in the Eurocash Group, while the wholesale segment was responsible for almost 78% of Eurocash Group's sales revenues. In sales revenues of the retail segment were also taken into account the revenues of the Fresh Project, which from 2019 will be presented in the retail segment.

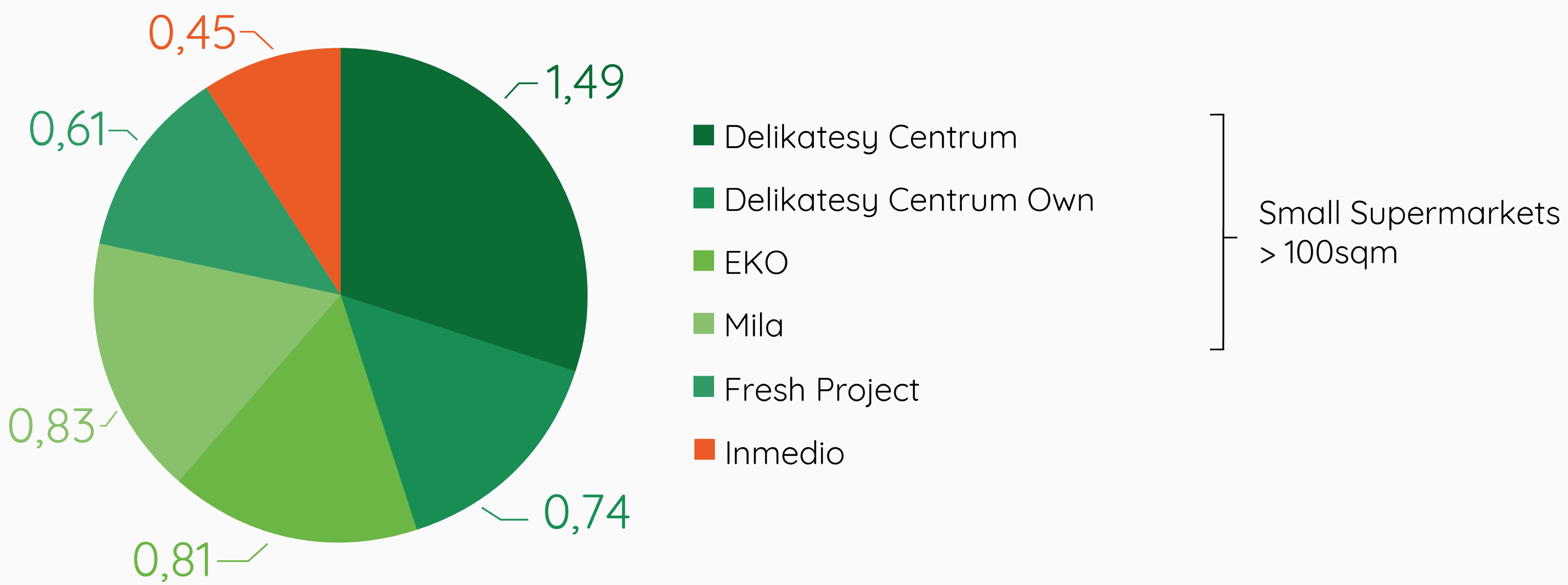
Chart 3 *Eurocash Group: Sales of the wholesale segment by individual formats (PLN bn)*



Source: Own study

The largest share in the wholesale segment sales is generated by Tobacco – 33%, followed by Distribution – 26% and Cash & Carry – 25% of the wholesale segment's sales. The sales of Alcohol segment amounted for 13% of sales.

Wykres 4 *Eurocash Group: Sales of the retail segment by individual formats (PLN bn)*



Source: Own study

The Retail Segment consists mainly of wholesale sales to Delikatesy Centrum, which amounts to approx. 58% including sales of the Fresh Project (distribution of fresh products such as fruits, vegetables, meat and cold cuts). Delikatesy Centrum own stores run by companies in which Eurocash holds a 50% share (Rogala, FHC-2, Madas) constitute 17% of sales revenue, while stores run by EKO Holding (both Delikatesy Centrum and EKO stores) account for 19% of sales. The retail segment also includes the sale of Inmedio newsagents, whose share in the segment's revenue is 10%.

2.1 MARKET ENVIRONMENT

Key macroeconomic data

Due to the fact that the Group does business in Poland, the local macroeconomic environment has had and will have a significant impact on the future financial performance and the Group's development.

The pace of economic growth, household income levels, and other macroeconomic factors has a significant impact on the population's spending levels and the pace of growth in the domestic demand. Likewise, they also indirectly affect the Group's sales revenues.

The table below presents key macroeconomic data for the Polish economy for periods indicated.

Table 3 *Macroeconomic situation in Poland*

	2018	2017	2016
GDP change* (in %)	5,2	4,8	3,1
Registered unemployment** (in %)	5,8	6,6	8,2
Wage dynamics in Poland (in %) nominally	7,0	5,7	3,7
Consumer price index change (in %)	1,6	2,0	-0,6

Source: Central Statistical Office
** Preliminary data (for the first three quarters 2018)*
*** As at year end*

EUROCASH GRUPA

__Chart 5__ Macroeconomic: GDP change vs. registered unemployment

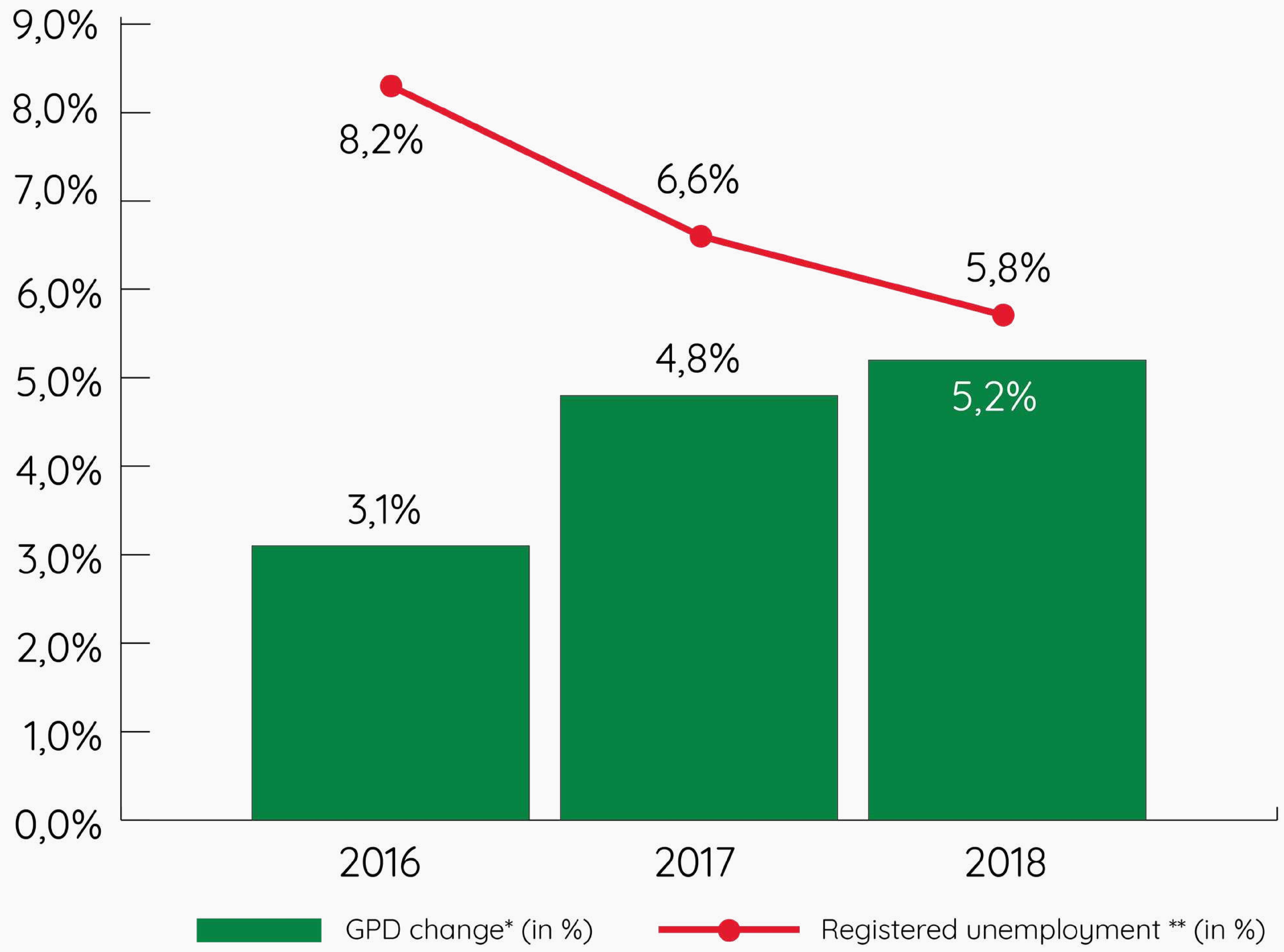
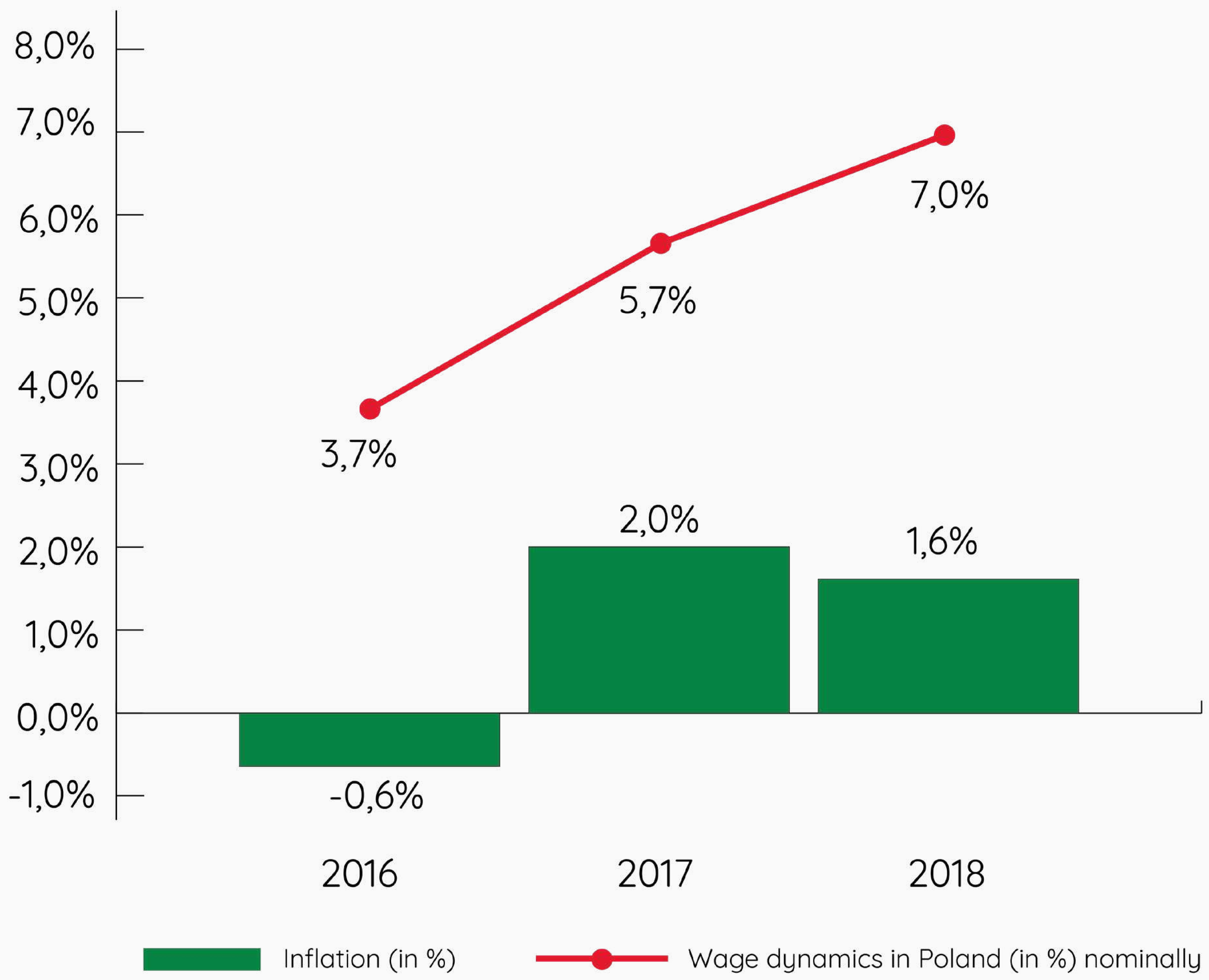


__Chart 6__ Macroeconomic: Inflation vs. wage dynamics in Poland (nominally)



Poland's economic growth, as measured by GDP growth, according to preliminary estimates amounted in 2018 to 5.2% compared to 4.8% in 2017. In 2018 the fastest growing sector of the economy was construction business - the value added in this sector increased by 17.0% year on year. Much lower growth dynamics were achieved by other industries. In transportation and storage – an increase by 9.2% YoY, in industry 5.5% YoY, in trade and repair of motor vehicles increased by 4.8% compared to the previous year. Total consumption in 2018 increased by 4.3% and in consumption in the household sector by 4.5% YoY.

The increase in operating expenses, which are significantly linked to the increase in wages, also has a significant impact on the operations of enterprises in Poland. In years 2016-2017, the dynamics of gross wages and salaries in private enterprises ranges from 3.7% to 5.7%, and in 2018 it amounted to 7.1% (data from the Central Statistical Office). In the same period, deflation of consumer goods and services was recorded in Poland, which in 2018 returned to positive values and amounted to 1.6%.

Prices of consumer goods and services in 2018 increased by 1.6% comparing with previous year. Prices of food and non-alcoholic beverages in 2018 increased by 2.6% and prices of alcoholic beverages and tobacco products increased by 1.5% YoY.

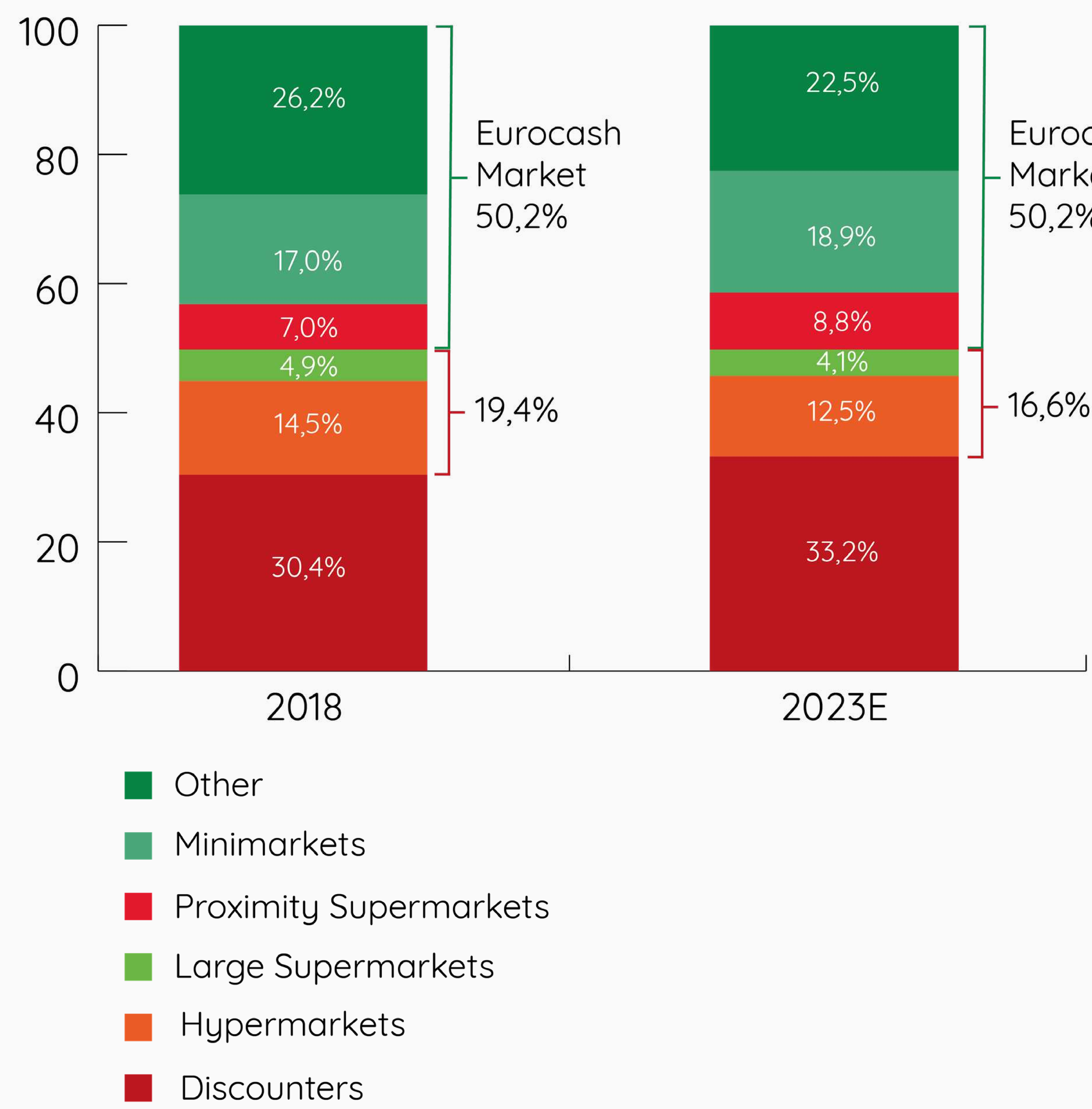
At the end of December 2018, the registered unemployment rate in the country improved comparing to the previous year and amounted to 5.8%.

Polish FMCG market - general information

The FMCG market includes food products, soft drinks, alcoholic beverages, tobacco products, and household chemicals and cosmetics.

According to the Nielsen, value of the FMCG market in 2018 in Poland increase by 5.4% in comparison with the 2017.

Chart 7 *Structure of the FMCG market in Poland**

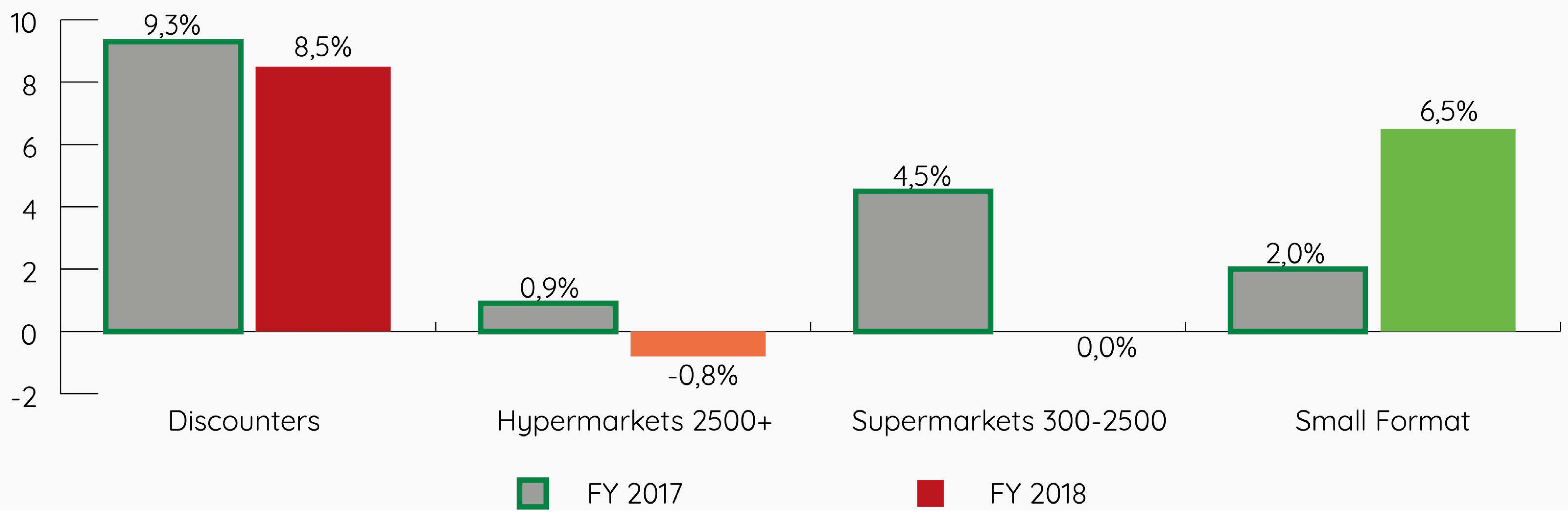


Source: www.retailytics.com

According to the data prepared by retailytics, the total share of the value of large format stores in the coming years will decrease in favor of discount chains. Currently, the share of large format (excluding discounters) is at the level of 19.4%, however it is estimated that by 2023 it will fall to the level of 16.6%. The share of small-format stores and proximity supermarkets in 2018 amounted to over 50% and in the coming years should not record declines

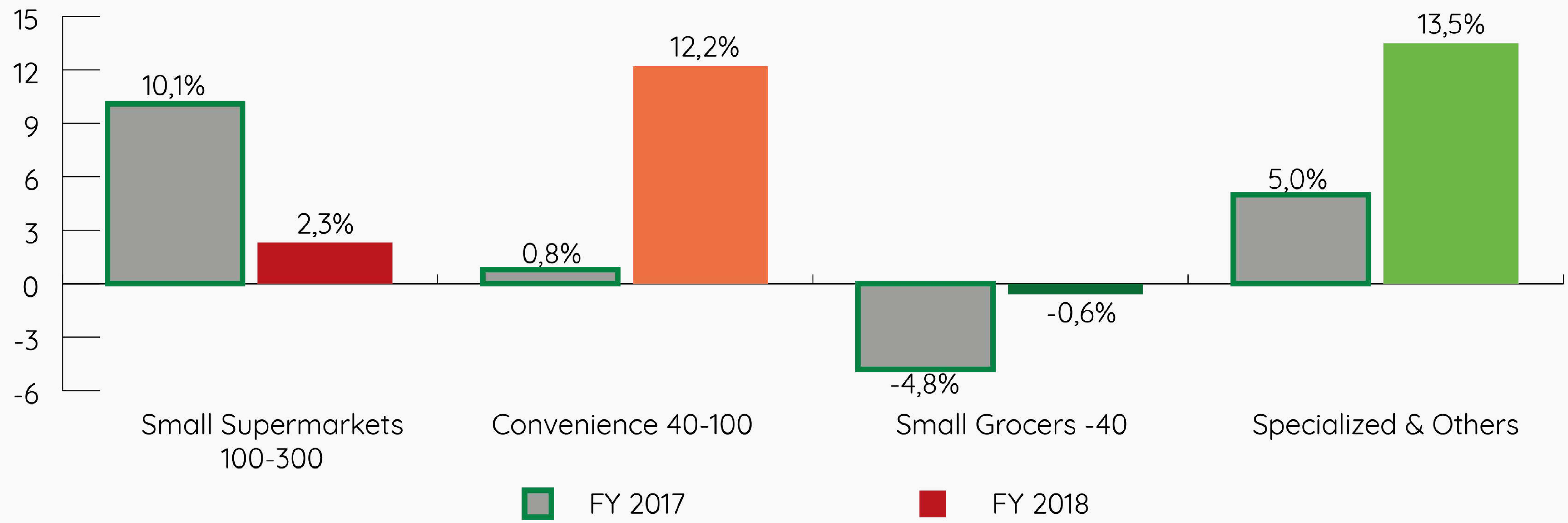
At the same time, the number of small-format stores decreased by 3.3%, reaching the level of approx. 91.5 thousand stores at the end of 2018 (large, medium and small grocery stores, sweet and alcohol, kiosks and petrol stations). Decrease in the number of small-format stores it is mainly caused by the decrease in the number of smallest stores with an area of up to 40 sqm. However, the sale of stores that remain on the market is growing quite fast which translates into a 6.5% increase in sales small format stores compared to last year. The sales of convenience stores (from 40 to 100 sqm) which recorded a 12.2% YoY increase in sales and specialist stores, which recorded an increase of 13.5% YoY, which is the largest growth recorded on the market. Small supermarkets with an area of 100-300 sqm increased by 2.3% YoY and stores below 40 sqm, despite the fact that their number decreased the fastest, noted a drop in sales of only 0.6% YoY. Among large format stores, only discount stores recorded an increase in sales (by 8.5% YoY), while large supermarkets did not record changes in sales volume as compared to 2017. The hypermarket segment recorded a drop in sales by -0.8% YoY.

Chart 8 *Sales dynamics on the food market by distribution channels*



EUROCASH GRUPA

Chart 9 *Sales dynamics on the food market in small-format stores*



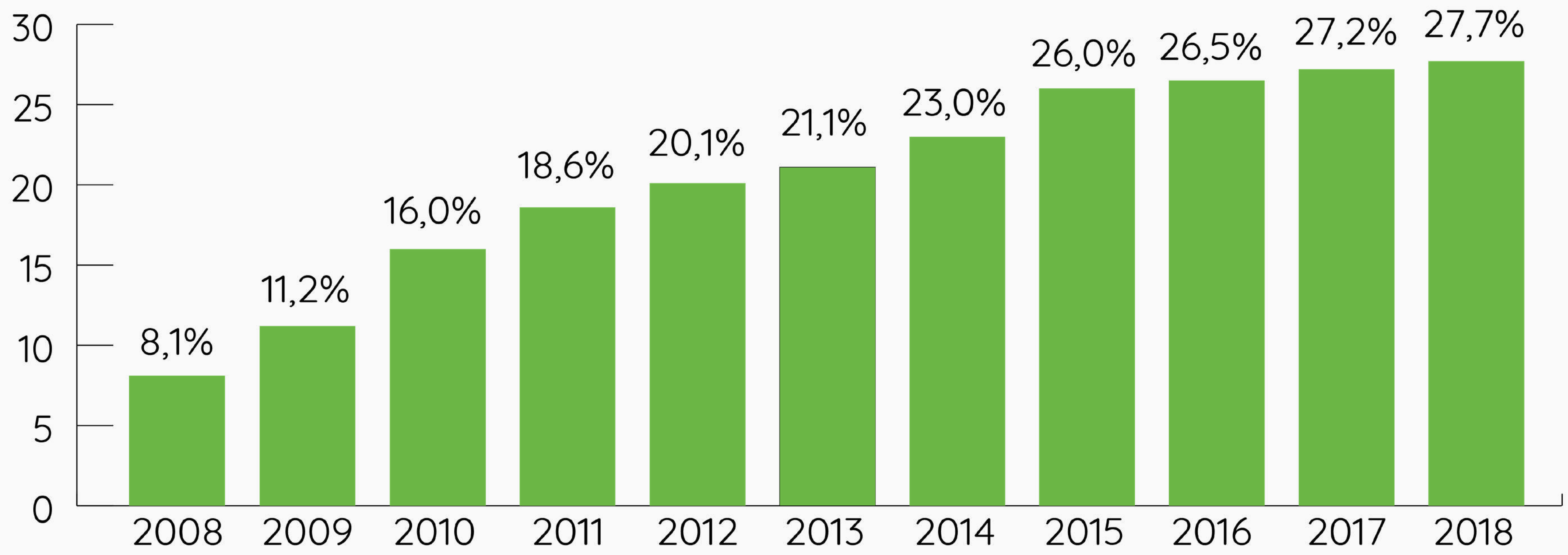
Source: Own study based on data from the Nielsen
** FY 2018 - LTM Dec 2018 = from January 2018 to December 2018*
*** Small Supermarkets, Convenience, Small Grocers – Food sales dynamics*

Wholesale distribution of FMCG Market

Wholesale operations which are players in the FMCG distribution market primarily compete in supplying independent small supermarkets, traditional grocery stores, specialized grocery stores (butcher's, bakeries, confectionaries, fruit and vegetable stores, alcoholic beverages stores, and fishmonger's) and so called alternative distribution channels which include kiosks, retail outlets attached to petrol stations, as well as the HoReCa (hotels, restaurants, and catering outlets).

In 2018, Eurocash Group represented a 27.7% share in the wholesale market of FMCG products, which was a 0.5 p.p. increase on the previous year. Below is presented the evolution of Eurocash Group market share during last years.

Chart 10 *Market share of Eurocash Group during 2008-2018*



Source: Own estimates

Trends on the Polish FMCG Market

In the last decade, a gradual leveling off the market share was noted for both FMCG retail sales channels, i.e. the modern and the traditional channel. Currently, according to estimates released by Nielsen, large format stores (supermarkets, hypermarkets and discount stores) have market of approximately 59% of major retail channels whereas small format stores - approximately 41%. According to Eurocash, there is no evidence that the role of traditional retail trade will continue to dramatically diminish in the coming years. This is supported by both external conditions (the demographic structure) as well as internal conditions (which mainly consist of consolidation and modernization mechanisms which facilitate effective competition with large format outlets.) Pooling grocery stores and small supermarkets into franchise networks - both traditional in nature (which are in fact a form of loyalty programs) as well as modern ones (which tie retailers strongly to their supplier) a manifestation of this trend. According to estimates, the total number of retail outlets associated in networks was approximately 35.5 thousands (+3.9% YoY) in 2018.

After rapid consolidation of the FMCG wholesale distribution market has observed in years 1991-2001, the last decade saw a reduction in the number of wholesale businesses involved in the sales of FMCG products down to approximately 3 000 - 4 000 entities, which number remains stable.

2.2 EUROCASH GROUP: BUSINESS FORMATS

The Eurocash Group is the largest Polish company dealing in wholesale distribution of food products and marketing support for independent Polish entrepreneurs conducting retail operations. The franchise and partner networks supported by Eurocash associate over 15,000 independent stores operating under such brands as abc, Groszek, Delikatesy Centrum, Lewiatan, Euro Sklep or Gama.

Through a range of distribution formats, the Eurocash Group focuses its business activities on the wholesale distribution to customers across all significant wholesale market segments, in particular, to small format stores throughout Poland such as traditional retail stores (small supermarkets and grocery stores), convenience stores at petrol stations, restaurants, hotels and cafeterias.

Chart 11 *Eurocash Group: Focused on small format stores*

EUROCASH GROUP

WHOLESALE	RETAIL	PROJECTS	OTHERS
CASH&CARRY	DELIKATESY CENTRUM	DUŻY BEN	
TOBACCO	INMEDIO	KONTIGO	
ALCOHOL		ABC NA KOŁACH	
FOOD SERVICE		OTHERS	
DISTRIBUTION			

abc	Lewiatan	RETAIL PARTNER CHAINS ORGANIZED BY THE WHOLESALE SEGMENT
Gama	Groszek	
Euro Sklep	Koliber Chemists	

Below we present the basic financial and operating data of the Eurocash Group divided into the following segments and distribution formats:

Wholesale – wholesale distribution formats:

• **Eurocash Distribution** consisting of:

- active distribution companies (Eurocash S.A. after merger with Tradis Sp. z o.o., DEF Sp. z o.o., AMBRA Sp. z o.o.);
- companies organizing or supporting franchise chains of retail shops: Euro Sklep S.A., Lewiatan Holding S.A., Lewiatan Podlasie Sp. z o.o., Lewiatan Śląsk Sp. z o.o., Lewiatan Zachód Sp. z o.o., Lewiatan Północ Sp. z o.o., Lewiatan Opole Sp. z o.o., Lewiatan Wielkopolska Sp. z o.o., Lewiatan Podkarpacie Sp. z o.o., Lewiatan Kujawy Sp. z o.o., Lewiatan Orbita Sp. z o.o.;
- Detal Podlasie Sp. z o.o. (company operating retail stores in Lewiatan chain).

• **Cash&Carry** – a national network of discount Cash & Carry type warehouses under the "Eurocash Cash & Carry" brand, as part of which the loyalty program for the "abc" network of stores operates;
• **Tobacco & Impulse** – active distribution of tobacco products and fast moving consumer goods through Eurocash Serwis;
• **Alcohol Distribution** – wholesale and retail distribution of alcoholic beverages throughout Poland;
• **Eurocash Food Service** – supplies for restaurant chains, hotels and independent food outlets;
• **Other** - sales revenue of PayUp Polska S.A., Cerville Investments Sp. z o.o.

Retail – retail sales of Eurocash Group and wholesale sales of Eurocash to Delikatesy Centrum franchisees:

• **Delikatesy Centrum franchise stores** – a franchise system for retail stores operating under the brand "Delikatesy Centrum";
• **Delikatesy Centrum own retail stores** – own retail stores operating by companies that Eurocash hold 50% of shares: Firma Rogala Sp. z o.o., FHC-2 Sp. z o.o., Madas Sp. z o.o.;
• **EKO** – own retail stores under brand Delikatesy Centrum and EKO operated by EKO Holding S.A.;
• **Mila** – own retail stores under brand Mila operated by Mila S.A.;
• **Inmedio** – press retail kiosks under Inmedio brand.

Projects – sales revenue of new projects running by Eurocash S.A. and its subsidiaries: Eurocash Convenience Sp. z o.o., Kontigo Sp. z o.o., Eurocash Detal Sp. z o.o., ABC na kołach Sp. z o.o., Duży Ben Sp. z o.o., Sushi 2Go Sp. z o.o., 4Vapers Sp. z o.o. and sales of fresh product distribution to Delikatesy Centrum stores realized by Eurocash. S.A.

Others – sales revenue and costs of other companies through Eurocash Trade 2 Sp. z o.o., Eurocash VC 2 Sp. z o.o., Eurocash VC 3 Sp. z o.o., Detal Finanse Sp. z o.o., Akademia Umiejętności Eurocash Sp. z o.o. and Central Head Office costs consolidation not related to any of above segment.

The business of Eurocash Group is focused on the territory of Poland.

2.3 NUMBER OF OUTLETS

As at 31 December 2018, the Eurocash Group's wholesale trade network comprised 180 Cash&Carry warehouses, under which a network of „abc" partner stores was organized, which included 8 708 local grocery stores. In franchise and partner networks cooperating with Eurocash Dystrybucja, there were 5,024 stores associated.

The retail network included 1,539 small supermarkets, including 1,328 operating under the Delikatesy Centrum brand and 448 Inmedio press salons. The table below presents information on the number of Cash & Carry wholesalers, the number of small supermarkets, including Delikatesy Centrum, „abc" chain stores, Inmedio stores and stores associated under Eurocash Dystrybucja.

Table 4 *Number of Cash & Carry Warehouses, small supermarkets including Delikatesy Centrum stores, 'abc' network, Inmedio newsagents and franchise stores*

	As at 31st December 2018	As at 31st December 2017
Cash & Carry Warehouses	180	180
'abc' store network	8 708	8 531
Franchise and partner stores of Eurocash Distribution*	5 024	4 905
Inmedio newsagents	448	452
Small Supermarkets	1 539	1 344
Incl. Delikatesy Centrum	1 328	1 171

**Groszek, Euro Sklep S.A., Lewiatan, PSD*
Source: Eurocash

2.4 SALES STRUCTURE

Basic groceries (food and drinks – both alcoholic and non-alcoholic) represent key sales items for the Eurocash Group. In 2018, the share of these products accounted for approximately 68.4% of the total sales figure. The second most important sales contributor comprised of tobacco products, pre-paid top ups, and phone cards - with the share of 29.0% in 2018. The share of other non-food products (including cosmetics, household chemicals, OTC drugs, and others) accounted for 2.6% in 2018.

2.5 STRUCTURE OF THE EUROCASH CAPITAL GROUP

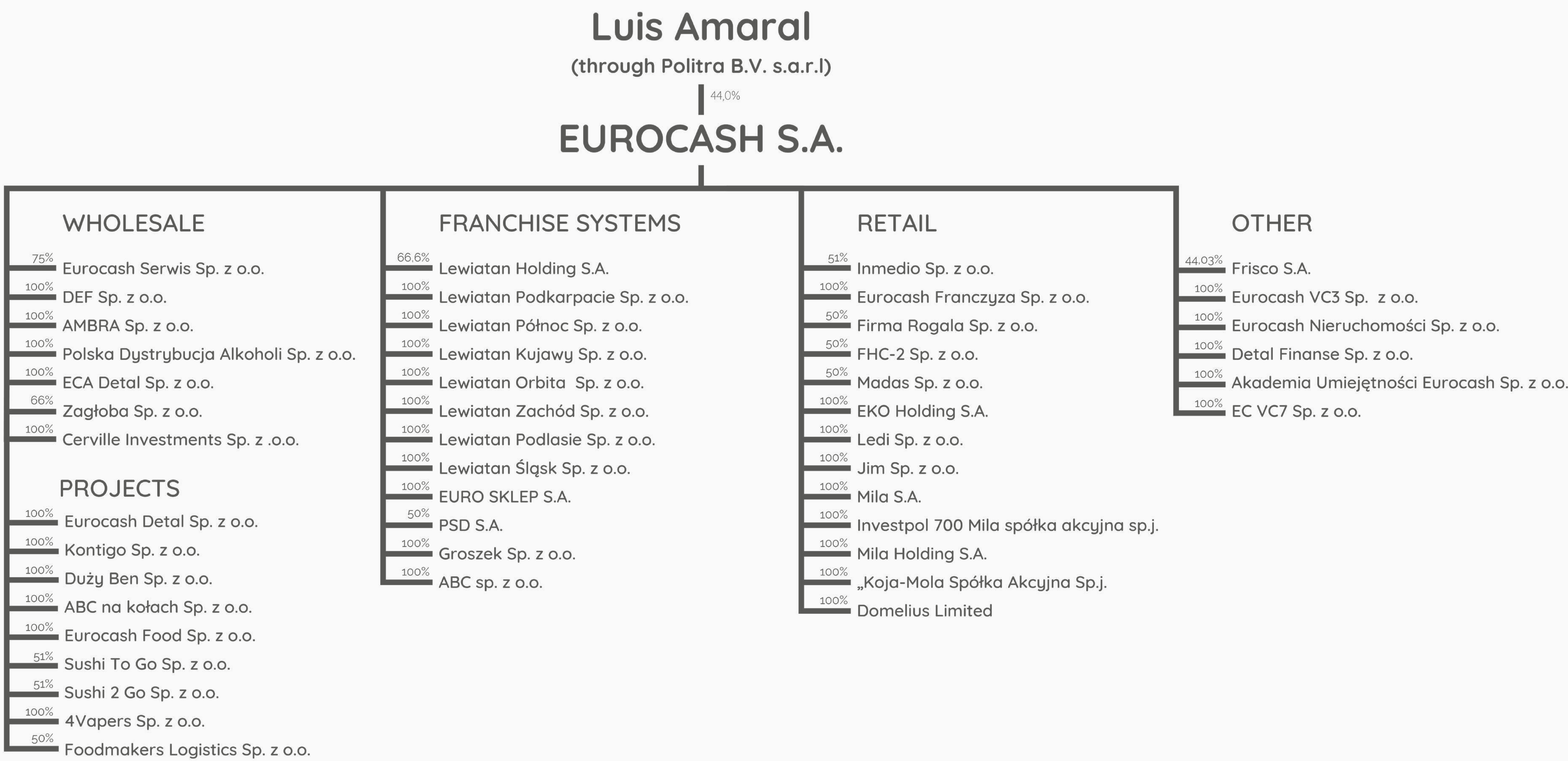
Luis Amaral is the main shareholder of Eurocash (directly and indirectly through Politra B.V. s.a.r.l.), with the shareholding of 44.04% as at 31.12.2018. Luis Amaral serves as President of the Management Board. The parent company in the Group is Eurocash S.A., which realizes the majority of the Group's sales.

As at 31 December 2018, Azvalor Asset Management S.G.I.I.C. S.A. together with the direct and indirect subsidiaries, held a total of 13,605,690 shares constituting 9.78% of the share capital of EUROCASH S.A. These shares entitled to 13,014,591 votes constituting 9,35% of the share in the total number of votes at the General Meeting of Eurocash S.A.

Detailed information on the Eurocash Group's organizational structure and a specification of entities under consolidation may be found in Supplementary Information to the consolidated financial statements.

The parent entity in the Group is Eurocash S.A., which performs most of the group's sales. The structure of the Eurocash Group and its affiliated companies as at 31st December 2018 is presented on the next page.

Chart 12 *The structure of the Eurocash Group and its affiliated companies as at December 31 2018*



3.1 EUROCASH GROUP DEVELOPMENT STRATEGY

The Management Board of the Eurocash Group, through its activities, aims to sustainably develop the operations of the Group and its clients. The primary goal of the Group is to ensure the competitiveness of independent retail stores in Poland and to offer added value to the Group's customers as well as to increase the value of the Group for its shareholders.

The Group implements its strategy through:

- satisfy the needs of the customers using a variety of distribution formats and forms of cooperation as well as by ensuring that customers receive an expected service quality,
- create a permanent competitive advantage for the Group through the effect of scale,
- systematic costs optimization and integration of operating systems of all business units operating within the Group.

In response to an ongoing consolidation process noted in the market for food products distribution in Poland, including the market for the wholesale distribution of FMCG products in Poland, the strategy of the Eurocash Group also assumes further organic growth across every distribution format as well as the continuation of takeovers of other wholesalers and franchise networks. Transactions concerning acquisitions of other entities allow generating scale economies relatively fast, which translates into the possibility for Group to offer its customers (independent retail trade) better conditions of goods procurement, which should also help increase the Group's competitiveness and enhance its market position.

In line with the updated strategy for 2023, the Eurocash Group intends to create the largest supermarket chain in Poland based on its own and franchise stores. The source of expansion whose assumption is to create a chain of stores with 2400 outlets, will be the retail chain development in the franchise model, supported by subsequent acquisitions of local chains and building of greenfield stores (together with partners from the real estate sector). In this way, entrepreneurs from entire Poland will have access to a recognizable retail brand and to marketing tools at the cost level comparable to large format retail chains.

Eurocash Group's mission is to increase competitiveness of retail stores operated by independent entrepreneurs in Poland. Experiences developed in own retail stores will ultimately be transferred to all franchisees.

One of the tools made available to all Eurocash Group clients so far is the Eurocash Academy - an educational platform that gives independent entrepreneurs knowledge to which employees of large format competition do not have access. Another solution developed today on the basis of the Delikatesy Centrum chain is platform for fresh products distribution, which at first stage will be also available to franchisees and partners associated in chains cooperating with Eurocash Distribution format. Next tool, a Customer Relationship Management System based on the mechanisms developed at Delikatesy Centrum (Delikarta) will be available to all wholesale clients. Ultimately, the customers of Eurocash Group will be able to take advantage from solutions invented on Frisco.pl's experience (e-grocery store).

As part of its wholesale activities, the Eurocash Group will focus on the integration of each distribution format, sharing the best solutions developed by each of the format and taking group synergies. A healthy, reorganized wholesale business, generating strong cash flows from operating activities, will be the main source of financing the expansion of the retail segment. Further development of wholesale activities should be supported by the eurocash.pl platform, which gives the owners of independent retail stores the opportunity to indirectly reduce costs and, above all, better address the needs of consumers.

In order to preserve the competitiveness of independent stores in Poland, the Eurocash Group continues to invest in innovative projects, such as: Duży Ben, abc on wheels, Kontigo, distribution of high quality fresh products and others. After successful development of projects: Faktoria Win and PayUp in previous years, Company decided to expand: Duży Ben concept as a franchise chain and fresh products distribution to Eurocash Distribution clients.

3.2 FACTORS IMPACTING DEVELOPMENT OF EUROCASH GROUP

External Factors

Growth in the FMCG market and changes in market structure

The Group anticipates further growth of share in modern distribution channels, however, its adverse impact on Company's income will be compensated by the growth of the FMCG market value as well as by the consolidation in the wholesale market to traditional wholesale sales channels.

Fuel prices

Since a significant part of selling costs is logistics costs, strictly dependent on fuel prices, their significant changes may affect the Group's results.

Inflation

Unexpected changes in the prices of food products, beverages, alcohol, or other FMCG products, or the price of fuel, of which depend on logistics costs may affect the results Eurocash.

Payroll costs

A potential stress on payroll costs may have an adverse effect on the Group's performance in the medium term perspective. However, a prospective increase in remuneration levels has an effect on the entire Polish market. As the Group sales are realized in Poland, its competitive position should remain unchanged due to this influence.

Internal Factors

Integration of acquired companies

Due to the necessity of integrating acquired companies EKO Holding S.A., Mila S.A., FHC-2 Sp.z o.o., Madas Sp. z o.o. and Polska Dystrybucja Alkoholi Sp. z o.o. at the operational level, in the opinion of Eurocash S.A. Board full synergies associated with these transactions will be possible to reach within 3 years after the acquisition of control over these companies. Companies EKO Holding S.A., Mila S.A., FHC-2 Sp.z o.o., Madas Sp. z o.o. are integrated within Delikatesy Centrum chain, and PDA Sp. z o.o. is integrated within Eurocash Alcohol distribution format

Development of Eurocash Retail segment

Eurocash Group continues expansion of the franchise chain Delikatesy Centrum and envisages opening of app. 900 new Delikatesy Centrum stores by 2023. Expansion of Delikatesy Centrum chain assumes three sources of growth:

- Acquisitions of regional small supermarket chains,
- Opening stores run by franchisees,
- Opening of own retail stores (in cooperation with partners investing in real estate).

Total investment to be realized with Real Estate partners is estimated at app. PLN 1.0 – 2.0 bn. The expansion plan assumes achievement of the following operational parameters:

- Average stores size of 350 sqm (selling area),
- Average sales per sqm of app. 15 600 PLN p.a. in newly opened mature stores
- Average EBITDA margin of mature store should reach app. 6.4%.

The envisaged organizational structure of the Eurocash Retail segment, assumes, that it will consist of all companies operating retail stores such as Firma Rogala, FHC-2, Madas and EKO Holding S.A. and Mila S.A.. Moreover, the target structure shall include also all wholesale and retail operations related to supply and support provided for retail stores operated by franchisees under Delikatesy Centrum brand. As a result Fresh Project shall be included in this segment by app. 2020.

As a result of new organization and investments, Eurocash Retail segment shall operate (pro-forma, including Mila chain) app. 1,539 proximity supermarket stores with consolidated sales of app. PLN 5.1 bn and app. PLN 7.4 bn retail sales including Delikatesy Centrum franchise stores retail income and own stores.

Investment in strategical growth projects

To remain competitiveness of independent retail stores in Poland Eurocash Group continues an investment in innovative projects: Duży Ben, abc on wheels, Kontigo, distribution of high quality fresh products and others. Results of these projects have negative impact on the Group profitability, however the Board recognizes necessity of such investment to assure the growth in 5 to 10 years. After successful development of projects: Faktoria Win and PayUp in previous years, Company decided to expand: Duży Ben concept as a franchise chain and fresh products distribution to Eurocash Distribution clients.

Cost optimization program

During 2017 Eurocash Group initiated a medium-term program to increase cost efficiency by reducing the costs in areas of Selling, General and Administrative Expenses and Other Operating Costs. The total potential of the cost reductions may reach PLN 150m by 2020. The planned effect of the cost reduction program can be partially reduced by increasing the level of wages resulting from pressure on labor costs and inflation. By 2018, approximately 70 million costs were reduced, which were fully compensated by the increase in labor costs.

In addition to the information described in this report, there are no other significant factors that could affect the financial position of the Eurocash Group in the next year.

3.3 RISKS AND THREATS

Financial risks are discussed in Note 34 to the consolidated financial statements for 2018, which constitute a part of the Eurocash Group's annual report. Other significant risk factors related to the operations of the Eurocash Group S.A. are presented below.

External Factors

Macroeconomic situation. Purchasing power of the population

Economic slowdown, a drop in the purchasing power, and a decrease in household expenditure for consumption may have a negative impact on sales volume noted by the Eurocash Group.

Structure of FMCG retail distribution market in Poland

In 2018, the traditional distribution channel was a significant form of FMCG retail distribution, representing the share of over 50%. Such a high share (against other European countries) results from a low concentration of population in a country as well as from poor housing conditions as small and medium-size shops located away from large conglomerates comprise the key customer group for Eurocash. Growth in the share of modern distribution will shrink a prospective market for the Eurocash Group's business.

Structure of the traditional FMCG distribution channel. Competition

According to the estimates compiled by the Eurocash Group, approx. 3 000-4 000 entities operate in the wholesale FMCG distribution market. Market consolidation and an entry of new strong players could have a negative impact on margin levels.

Internal Factors

IT systems

An efficient, uniform IT system facilitates a centralized and efficient management of business processes as well as an accurate profitability study of specific products and discount stores, which enhances safe business operations. Possible disturbances in system operations could constitute a threat for the Group’s business.

New investments

The Eurocash Group wishes to be an active player in the process of market consolidation by way of acquiring FMCG warehouses. While taking over other enterprises, the Group faces numerous material risks connected to integration, achievement of synergies planned, or an inadequate assessment of the market potential.

Suppliers

Due to the range of products offered by the Eurocash Group and geographically diverse sales, key suppliers of the Group are numerous and as at 31 December 2018 comprised 1 809 national and foreign entities.

Suppliers of branded products, comprised of key producers and importers of FMCG merchandise including tobacco products and alcoholic beverages, are selected mainly based on their market share, impact of the brand, the coverage of individual product segments, and regional diversification.

Due the nature of the FMCG market, as well as market competitiveness and lower sales volumes noted for tobacco products in Poland, the Group’s operations does not depend on suppliers, as a result of which the risk related to contract termination or adverse changes in contractual terms could have a negative effect on business operations of Eurocash and its financial performance is limited.

3.4 NOTE ON SEASONALITY

Sales in FMCG wholesale trade are traditionally lower in Q1 against the remaining quarters. Sales peak in the summer period and stabilize in the Q4.

4. MANAGEMENT DISCUSSION OF EUROCASH GROUP FINANCIAL PERFORMANCE FOR 2018

4.1 PRINCIPLES APPLIED IN THE PREPARATION OF ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

The Company's consolidated financial statements have been prepared in accordance with the international Financial Reporting Standards, as endorsed by the European Union and on the understanding of continuation of operations by companies within the Group in the foreseeable future. At the date of preparing the financial statement there were no conditions indicating risks in continuation of operation by the Company.

Accounting policy used to prepare financial statement was presented in a point 2 of additional information to the consolidated financial statement of Eurocash Group for the FY2018 and was applied to all periods presented in the financial statement.

4.2 EUROCASH GROUP: FINANCIAL AND OPERATIONAL HIGHLIGHTS

Table 5 *Eurocash Group: Highlights of 2018 financial performance*

PLN m	2018	2017	Change %
Sales revenues (traded goods, materials)	22 832,89	20 849,46	9,51%
EBITDA normalized*	373,86	360,71	3,64%
Gross profit normalized*	110,80	134,71	-17,75%
Net profit normalized*	66,90	84,84	-21,15%

* excluding impact of the one-offs

Consolidated total sales of Eurocash Group in 2018 amounted to PLN 22 832.89 m and increased by 9.51% YoY. Sales growth was driven mainly by Wholesale segment. EBITDA normalized in 2018 amounted to PLN 373.86 m compared with PLN 360.71 m previous year. Gross profit normalized amounted to PLN 110.80 m in comparison to PLN 134.71 m last year. Net profit normalized amounted to PLN 66.90 m compared with PLN 84.84 m previous year.

Below we present the basic financial and operating data of the Eurocash Group by distribution formats.

***Table 6** Eurocash Group: External sales of goods by distribution format for 2018*

PLN m	2018	2017	Change %
Wholesale	17 681,88	16 724,60	5,72%
Cash&Carry	4 474,74	4 312,53	3,76%
Tobacco	5 894,02	5 535,65	6,47%
Alcohol	2 212,44	2 265,88	-2,36%
Distribution	4 615,18	4 177,28	10,48%
Food Service	476,36	433,26	9,95%
Other	9,13	0,01	104000,42%
Retail	4 318,72	3 436,83	25,66%
Delikatesy Centrum	1 490,42	1 465,55	1,70%
Inmedio	445,84	424,90	4,93%
Delikatesy Centrum Own	739,26	704,89	4,88%
EKO	808,36	841,48	-3,94%
Mila	834,85	0,00	-
Projects	680,30	551,57	23,34%
Eurocash Group	22 680,90	20 713,00	9,50%

Wholesale:

- In 2018 external sales of goods in Wholesale segment amounted to PLN 17 681.88 m and increased by 5.72% YoY.
- EBITDA of the Wholesale segment amounted in 2018 amounted to PLN 409.63 m comparing to PLN 346.61 m in the same period of 2017 (an increase by 18.18% YoY).
- LFL sales growth (same number of stores) in Eurocash Cash&Carry stores in 2018 amounted to positive 4.13%.
- The number of Eurocash Cash&Carry stores at the end of 2018 amounted to 180.
- The number of abc stores amounted to 8 708 at the end of 2018.
- Number of partnership or franchise stores organized by companies belonging to Eurocash Group (Groszek, Euro Sklep, Lewiatan and PSD) amounted to 5 024 stores as of the end of 2018.
- Sales of cigarettes in Tobacco & Impulse distribution format in terms of volume amounted in 2018 to 10 041 m pieces and increased by 5.55% YoY.
- Sales of cigarettes in terms of value increased by 8.5% in 2018 YoY

Retail:

- Sales of goods realized by Retail segment in 2018 amounted to PLN 4 318.72 m and increased by 25.66% YoY. Sales increase was attributable mainly to consolidation of acquired in May 2018 Mila chain (sales revenues PLN 834.85 m in 4Q YTD 2018)
- EBITDA of the Retail segment amounted in 2018 to PLN 107.03 m comparing to PLN 153.27 m in 2017. The decrease in the EBITDA of the retail segment was mainly related to the integration of the EKO and Mila chain acquired in 2017 and 2018 respectively.
- LFL dynamics of wholesale sales realized by Eurocash to „Delikatesy Centrum" franchise stores (the same number of stores) amounted to +2.88% in 2018.
- LFL growth of retail sales of "Delikatesy Centrum" franchise stores amounted to +0.89% in 2018. LFL growth of retail sales in EKO stores under Delikatesy Centrum brand amounted to 1.93% in 2018. The improvement of logistics processes after the integration of two warehouses and the stores remodeling with the change of the brand to Delikatesy Centrum had a positive effect on the increase in LFL sales.
- LFL dynamics of retail sales in 2018 amounted in Inmedio stores to +1.74% YoY.
- Number of total small supermarkets amounted to 1 539 stores at the end of 2018 comparing to 1 326 in 2018. The number of stores includes 1 002 franchise stores, 127 own stores operated by Firma Rogala and FHC-2, 223 own stores operated by EKO Holding (199 under Delikatesy Centrum brand), and 187 stores operated by Mila under Mila brand.
- Total number of Inmedio newsagents amounted to 448 stores at the end of 2018.

Projects:

Sales of goods realized by Projects segment in 2018 amounted to PLN 680.30 m comparing to 551.57 m in 2017.

- The main driver of sales increase in Projects has been development of distribution of fresh products to franchise stores in Delikatesy Centrum chain. Sales of Fresh Project in 2018 amounted to PLN 605.90 m comparing to PLN

488.87 m in 2017. Starting from 2019 Fresh Project will be excluded from Projects segment and included in Retail segment due to the fact that project has reached break--even point in 2H 2018.

- Negative EBITDA contribution of Projects segment amounted in 2018 to PLN -40.91 m comparing to PLN -52.09 m in 2017.

Others

- EBITDA of Others segment in 2018 amounted to negative PLN 57.13 m comparing to PLN -87.08 m in 2017. Segment of others was impacted by one-off items like disposal of PayUp (PLN +75m), restructuring provision (PLN -27m) and costs of Mila process paid in 2Q 2018 (PLN +3m). Excluding one-off items EBITDA of Others segment amounted to negative PLN 101.88 m in 2018.

Table 7 *Eurocash Group: Operating segments adjusted results in 2018*

1Q YTD 2018 (PLN m)	Wholesale	Retail	Projects	Other	Total
Sales revenues from traded goods	3 969,71	817,40	164,48	0,00	4 951,59
EBIT	21,08	6,03	-15,43	-18,78	-7,10
(EBIT margin %)	0,53%	0,74%	-9,38%	0,00%	-0,14%
EBITDA	47,39	21,49	-14,26	-15,01	39,61
(EBITDA margin %)	1,19%	2,63%	-8,67%	0,00%	0,80%

2Q YTD 2018 (PLN m)	Wholesale	Retail	Projects	Other	Total
Sales revenues from traded goods	8 560,79	1 771,29	338,25	0,00	10 670,32
EBIT	107,55	19,47	-28,46	-38,03	60,53
(EBIT margin %)	1,26%	1,10%	-8,41%	0,00%	0,57%
EBITDA	160,21	53,55	-26,23	-30,89	156,64
(EBITDA margin %)	1,87%	3,02%	-7,75%	0,00%	1,47%

3Q YTD 2018 (PLN m)	Wholesale	Retail	Projects	Other	Total
Sales revenues from traded goods	13 332,85	3 032,36	506,11	0,00	16 871,32
EBIT	211,86	5,90	-35,79	-69,93	112,03
(EBIT margin %)	1,59%	0,19%	-7,07%	0,00%	0,66%
EBITDA	291,19	62,84	-32,45	-59,82	261,77
(EBITDA margin %)	2,18%	2,07%	-6,41%	0,00%	1,55%

4Q YTD 2018 (PLN m)	Wholesale	Retail	Projects	Other	Total
Sales revenues from traded goods	17 681,88	4 318,72	680,30	0,00	22 680,89
EBIT	303,93	26,61	-45,07	-71,09	214,38
(EBIT margin %)	1,72%	0,62%	-6,63%	0,00%	0,95%
EBITDA	409,63	107,03	-40,91	-57,13	418,61
(EBITDA margin %)	2,32%	2,48%	-6,01%	0,00%	1,85%

***Table 8** Eurocash Group: Operating segments results in 2017*

1Q YTD 2017 (PLN m)	Wholesale	Retail	Projects	Other	VAT settlements	Total
Sales revenues from traded goods	3 714,66	793,55	111,52	0,00	0,00	4 619,72
EBIT	9,92	18,56	-16,35	-19,11	0,00	-6,98
(EBIT margin %)	0,27%	2,34%	-14,66%	0,00%	0,00%	-0,15%
EBITDA	36,67	33,04	-16,03	-16,19	0,00	37,49
(EBITDA margin %)	0,99%	4,16%	-14,37%	0,00%	0,00%	0,81%

2Q YTD 2017 (PLN m)	Wholesale	Retail	Projects	Other	VAT settlements	Total
Sales revenues from traded goods	8 119,26	1 648,64	247,36	0,00	0,00	10 015,26
EBIT	88,35	44,84	-27,03	-38,30	-114,40	-46,54
(EBIT margin %)	1,09%	2,72%	-10,93%	0,00%	0,00%	-0,46%
EBITDA	142,05	74,25	-26,41	-32,13	-114,40	43,36
(EBITDA margin %)	1,75%	4,50%	-10,68%	0,00%	0,00%	0,43%

3Q YTD 2017 (PLN m)	Wholesale	Retail	Projects	Other	VAT settlements	Total
Sales revenues from traded goods	12 598,54	2 563,68	395,22	0,00	0,00	15 557,44
EBIT	159,67	61,75	-39,83	-55,58	-114,40	11,61
(EBIT margin %)	1,27%	2,41%	-10,08%	0,00%	0,00%	0,07%
EBITDA	239,47	105,65	-39,31	-46,58	-114,40	144,83
(EBITDA margin %)	1,90%	4,12%	-9,95%	0,00%	0,00%	0,93%

4Q YTD 2017 (PLN m)	Wholesale	Retail	Projects	Other	VAT settlements	Total
Sales revenues from traded goods	16 724,60	3 436,83	551,57	0,00	0,00	20 713,00
EBIT	239,10	92,35	-53,08	-100,98	-114,40	62,99
(EBIT margin %)	1,43%	2,69%	-9,62%	0,00%	0,00%	0,30%
EBITDA	346,61	153,27	-52,09	-87,08	-114,40	246,31
(EBITDA margin %)	2,07%	4,46%	-9,44%	0,00%	0,00%	1,19%

Table 9 *Eurocash Group: Operating segments results in 2016*

1Q YTD 2016 (PLN m)	Wholesale	Retail	Projects	Other	Total
Sales revenues from traded goods	3 662,87	598,06	42,89	0,00	4 303,83
EBIT	14,26	19,62	-7,66	-19,57	6,64
(EBIT margin %)	0,39%	3,28%	-17,86%	0,00%	0,15%
EBITDA	41,85	29,52	-7,05	-16,99	47,34
(EBITDA margin %)	1,14%	4,94%	-16,43%	0,00%	1,10%

2Q YTD 2016 (PLN m)	Wholesale	Retail	Projects	Other	Total
Sales revenues from traded goods	7 884,92	1 142,20	102,01	0,00	9 129,13
EBIT	88,55	34,48	-16,40	-29,95	76,68
(EBIT margin %)	1,12%	3,02%	-16,08%	0,00%	0,84%
EBITDA	142,80	53,95	-15,44	-23,70	157,61
(EBITDA margin %)	1,81%	4,72%	-15,14%	0,00%	1,73%

3Q YTD 2016 (PLN m)	Wholesale	Retail	Projects	Other	Total
Sales revenues from traded goods	12 251,92	1 795,41	169,76	0,00	14 217,08
EBIT	173,61	62,00	-27,43	-50,43	157,76
(EBIT margin %)	1,42%	3,45%	-16,16%	0,00%	1,11%
EBITDA	257,24	91,40	-25,91	-41,88	280,85
(EBITDA margin %)	2,10%	5,09%	-15,26%	0,00%	1,98%

4Q YTD 2016 (PLN m)	Wholesale	Retail	Projects	Other	Total
Sales revenues from traded goods	16 217,29	2 396,73	271,35	0,00	18 885,37
EBIT	292,05	111,04	-41,53	-87,27	274,28
(EBIT margin %)	1,80%	4,63%	-15,30%	0,00%	1,45%
EBITDA	404,73	151,41	-39,79	-75,87	440,49
(EBITDA margin %)	2,50%	6,32%	-14,66%	0,00%	2,33%

4.3 PROFIT AND LOSS ACCOUNT – PROFITABILITY ANALYSIS

Table 10 *Eurocash Group: Summary of 2018 Financial Performance*

PLN m	2018	2017	Change
Sales revenues (traded goods, materials)	22 832,89	20 849,46	9,51%
Gross profit (loss) on sales	2 881,88	2 465,32	16,90%
Gross profitability on sales (%)	12,62%	11,82%	0,80 p.p.
EBITDA	418,61	246,31	69,95%
(EBITDA margin %)	1,83%	1,18%	0,65 p.p.
EBIT	214,38	62,99	240,31%
(EBIT margin %)	0,94%	0,30%	0,64%
Gross profit	155,55	20,31	665,78%
Net Income	111,65	(29,56)	-477,72%
(Net profitability %)	0,49%	-0,14%	0,63 p.p.

__Table 11__ Eurocash Group: Normalized 2018 Financial Performance

PLN m	2018	2017	Change %
One-off items	**44,75**	**(114,40)**	
PayUp disposal	74,76		
Provision on restructuring costs	(27,00)		
Costs of Mila process	(3,01)		
Cost of potential Vat liabilities		(114,40)	
EBITDA normalized	373,86	360,71	3,64%
(Normalized EBITDA margin %)	1,64%	1,73%	-0,09 p.p.
EBIT normalized	169,62	177,40	-4,38%
(Normalized EBIT margin %)	0,74%	0,85%	-0,09 p.p.
Net profit normalized	66,90	84,84	-21,15%
(Normalized net profitability %)	0,29%	0,41%	-0,12 p.p.
Net profit normalized by tax from PayUp disposal	78,62	84,84	-7,33%
(Normalized by Pay Up tax net profitability %)	0,34%	0,41%	-0,07 p.p.

*excluding impact of the one-offs

Consolidated sales of Eurocash Group in 2018 amounted to PLN 22 832.89 m and increased by 9.51% YoY. Sales growth was driven mainly by Wholesale segment (PLN +957m in 2018) and consolidation of acquired retail company Mila S.A. (PLN +835m in 2018).

EBITDA normalized in 2018 amounted to PLN 373.86 m compared with PLN 360.71 m previous year (an increase by 3.64%). EBITDA increase was primarily related to the improvement of the wholesale segment's financial results, which were partly off-set by the financial results of the retail segment being in the process of reorganization and integration.

The net profit normalized in 2018 reached PLN 66.90 m, which means 21.15% decrease YoY. Net profit normalized by income tax on the sale of PayUp amounted to PLN 78.62 m. Normalized net profit in 2018 was impacted by higher depreciation driven by Retail segment and increased net financial costs due to increased leverage driven by acquisition of Mila chain.

4.4 BALANCE SHEET DATA

Balance Sheet Mix

The volume of fixed and current assets, equity, liabilities and provisions for liabilities, as well as their share in the total value of assets is presented in the table below:

***Table 12** Eurocash Group: Mix of Assets*

PLN m	31.12.2018	%	31.12.2017	%
Non-current assets (long-term)	3 006,01	50,01%	2 526,97	42,26%
Goodwill	1 783,65	29,67%	1 401,34	23,43%
Intangible assets	327,75	5,45%	347,09	5,80%
Property, plant and equipment	790,20	13,15%	678,99	11,35%
Investment real property	0,96	0,02%	0,97	0,02%
Investments in equity accounted investees	27,53	0,92%	32,42	1,28%
Other long-term investments	3,62	0,06%	30,78	0,51%
Long-term receivables	20,50	0,34%	7,16	0,12%
Deferred tax assets	50,47	0,84%	26,32	0,44%
Other long-term prepayments	1,34	0,02%	1,91	0,03%
Current assets (short-term)	3 004,90	49,99%	3 452,96	57,74%
Inventories	1 292,00	21,49%	1 320,25	22,08%
Trade receivables	1 343,42	22,35%	1 682,84	28,14%
Current tax receivables	1,37	0,02%	11,58	0,19%
Other short-term receivables	133,22	2,22%	143,07	2,39%
Other short-term financial assets	-	0,00%	50,43	0,84%
Short-term prepayments	38,32	0,64%	42,17	0,71%
Cash and cash equivalents	196,56	3,27%	202,60	3,39%
Total assets	6 010,91	100,00%	5 979,92	100,00%

Table 13 Eurocash Group: Mix of Liabilities

PLN m	31.12.2018	%	31.12.2017	%
Equity	1 036,41	17,24%	1 030,01	17,22%
Equity attributable to Owners of the Company	975,04	16,22%	966,33	16,16%
Share capital	139,16	2,32%	139,16	2,33%
Reserve capital	1 381,00	22,97%	1 460,76	24,43%
Hedging reserve	(7,64)	-0,13%	(6,48)	-0,11%
Option for purchase/selling the shares	(57,36)	-0,95%	(54,71)	-0,91%
Retained earnings	(480,12)	-7,99%	(572,39)	-9,57%
Non-controlling interests	(589,77)	-9,81%	(539,08)	-9,01%
Profit (loss) for the period	109,64	1,82%	(33,31)	-0,56%
Non-controlling interests	61,37	1,02%	63,67	1,06%
Non-current liabilities	79,52	1,32%	96,11	1,61%
Long-term financial liabilities	3,00	0,05%	4,93	0,08%
Other long-term liabilities	63,94	1,06%	58,15	0,97%
Deferred tax liabilities	5,95	0,10%	25,43	0,43%
Employee benefits	5,68	0,09%	6,48	0,11%
Provisions	0,94	0,02%	1,11	0,02%
Current liabilities	4 894,98	81,43%	4 853,81	81,17%
Loans and borrowings	542,75	9,03%	317,78	5,31%
Short-term financial liabilities	32,75	0,54%	249,44	4,17%
Trade payables	3 813,38	63,44%	3 940,90	65,90%
Current tax liabilities	55,19	0,92%	7,72	0,13%
Other short-term payables	110,66	1,84%	93,69	1,57%
Current employee benefits	111,24	1,85%	102,60	1,72%
Provisions	229,00	3,81%	141,68	2,37%
Liabilities	4 974,50	82,76%	4 949,92	82,78%
Total equity and liabilities	6 010,91	100,00%	5 979,92	100,00%

4.5 LOAN AGREEMENTS, WARRANTIES AND COLLATERALS

Loan agreements

Information on credit agreements concluded by the Group Eurocash is presented in Note 22 to the consolidated financial statements for 2018.

Loans granted

In 2018, Eurocash Group Companies did not grant any loans in the total value equivalent to 10% of the issuer’s equity.

Sureties and guarantees

Sureties and guaranties issued by the Eurocash Group companies are presented in Note 33 to the consolidated financial statements for 2018.

4.6 ISSUE OF SECURITIES AND BONDS IN 2018

Issue of shares

In the period between 1st January 2018 and 31st December 2018 no shares were issued

Issue of securities and bonds

As at December 31, 2018, the total value of bonds issued by Eurocash was PLN 0.00.

4.7 KEY OFF-BALANCE SHEET ITEMS

Information on key off-balance sheet items for the Eurocash Group is provided in supplementary information to the annual consolidated financial statements, i.e. Note 33 and 34.

4.8 EUROCASH GROUP CASH FLOW ANALYSIS

Cash flow Statement

Table 14 *Eurocash Group: Cash flows for 2018*

PLN m	2018	2017
Operating cash flow	498,77	471,25
Gross profit (loss)	155,55	20,31
Depreciation	204,24	183,32
Change in working capital	175,50	247,11
Other	(36,52)	20,51
Cash flow from investments	(378,88)	(335,71)
Cash flow from financing activities	(125,93)	(94,81)
Total cash flow	(6,04)	40,73

Total cash flow in 2018 amounted to PLN -6.04 m and operational cash flows amounted to PLN 498.77 m.

Cash flow from investment activities amounted to negative PLN 378.88 m in 2018 and cash flow from financing activities amounted to PLN -125.93 m.

Working capital rotation

Table 15 *Eurocash Group: Consolidated Working Capital Ratios*

Turnover in days	2018	2017
1. Inventories turnover	20,65	23,11
2. Trade receivables turnover	21,48	29,46
3. Trade liabilities turnover	69,77	78,24
4. Operating cycle (1+2)	42,13	52,57
5. Cash conversion (4-3)	(27,64)	(25,67)

Cash conversion in 2018 reached -27.64 days comparing with -25.67 days in 2017 which means improvement by 1,97 days.

Evaluation of Funds Management

The Eurocash Group generates positive cash flows from operations. All key investments carried out in 2018 were financed from own funds and credit facilities taken up.

The main base of liquidity management in Eurocash Group is internal model of forecasting cash flows. Eurocash uses two lines of credit to hedge the liquidity needs of the Group. Eurocash Group optimizes liquidity at subsidies and the interest result using Cash pooling and the system of internal loans.

In the opinion of the Management Board, no significant financial risks exist related to the capacity of Eurocash Group companies to pay their liabilities. Key financial risk factors related to Eurocash Group operations are as follows:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

Analysis of these risk factors is presented in Note 35 in the part of the report which contains consolidated financial statements.

4.9 INVESTMENT ACTIVITY

In 2018, the largest share in capital expenditure had expenses related to investments in capital investments – over half of the funds allocated for investments (65,5%). 1/5 of the expenditure was generated by wholesale segment (19%).

Table 16 *Eurocash Group: Key Investment Directions for Eurocash Group in 2018*

PLN m	2018	2017
Capital investment (including acquisition of shares and stock)	340,09	94,91
Wholesale	98,48	144,25
Retail	75,32	54,06
Projects	5,31	5,39
Others	0,00	1,52
Total investment outlays	519,21	300,13

Assessment of Capacity to Carry out Anticipated Investments

Key investments planned for 2018 are related to:

- Organic growth within the current structure of business units, and in particular:
  - Development of Delikatesy Centrum franchise,
  - Investment in innovative sales systems for franchisees,
  - Progressive integration of logistics within the Group
- Replacement investment,
- Updated strategy until 2023 which assumes bigger investments in Retail.

In order to finance the aforementioned investments, the Eurocash Group intends to use funds generated by the Group and additional external financing like credit facilities. In the opinion of the Eurocash Management Board, the Eurocash Group has adequate credit repayment capacity to secure financing for such prospective investments.

4.10 KEY CONTRIBUTORS TO 2018 FINANCIAL PERFORMANCE OF EUROCASH GROUP

- Equity Changes

In the period between 1st January 2018 and 31st December 2018, no shares were issued

- Dividend Payment

In accordance with Resolution No. 6 adopted by the Annual General Meeting on 25th April 2018, persons who were shareholders of the Company on 16th May 2018, received on 6th June 2018 a dividend of PLN 0.73 per one Company share. The total dividend paid amounted to PLN 101 589 198.78.

5.1 INFORMATION ON COURT PROCEEDINGS

In 2018, the Eurocash Group companies were not involved in any legal proceedings before court, a relevant arbitration authority, or a public administration body, the total value of which would represent at least 10% of issuer's equity.

5.2 INFORMATION ON SIGNIFICANT AGREEMENTS

In 2018, the Eurocash Group companies entered into the following agreements considered significant for the Group's business operations:

Agreement to acquire entities controlling the MILA chain of stores

On 29th May 2018 Eurocash S.A. acquired 100% of shares in the share capital of Domelius Limited (company under Cypriot law) with its registered office in Nicosia considered by the issuer, as well as taking over control on its subsidiary companies including: Mila Holding S.A. (previously Grupa 700 market-Detal spółka z o.o. S.K.A.), Mila S.A. (previously market-Detal spółka z o.o. sp.j.), Investpol 700 Mila spółka jawna and "Koja-Mila spółka akcyjna" spółka jawna.
Value of the transaction was settled on PLN 349,28 m, excluding some real estate which will not be taken over by Eurocash.

The takeover of the network of 187 Mila grocery stores operating in central Poland will enable the further development of the Eurocash Group and creation of a nationwide supermarket chain based on franchise and own stores.
Total sales revenues in the Mila network in 2017 reached approximately PLN 1.48 billion.

Sale of 100% shares in PayUp Polska S.A.

On 19th December 2018 was concluded the final agreement to sell 100% shares of PayUp Polska S.A. with its registered office in Komorniki to Centrum Rozliczeń Elektronicznych Polskie E-Płatności S.A. The price for the 100% shares in PayUp Polska was set at PLN 85,6 million.

The parties to the transaction have also concluded on 27th September 2018 an agreement on long-term cooperation, ensuring the continuity of payment services for Eurocash Group's customers. The acquisition of PayUp by Polskie ePłatności will make it possible to further develop the services provided through POS terminals installed at Eurocash customers' stores. PayUp will gain a strong strategic partner with the know-how and resources necessary for further development. Eurocash Group will focus on its core business and the development of new projects that support the competitiveness of independent retail in Poland.

5.3 INFORMATION CONCERNING EXECUTION BY THE ISSUER OR ITS SUBSIDIARY TRANSACTION WITH RELATED PARTIES

In the 2018 companies belonging to Eurocash Group did not grant any credit or loan guarantees and did not grant any warranties, the total value of which is equivalent to 10% of Eurocash equity.

5.4 INFORMATION ON TRANSACTIONS WITH CONNECTED ENTITIES

In the 2018 companies belonging to Eurocash Group did not execute other transactions with related parties otherwise than in the ordinary course of business on an arm's length basis.

5.5 FORECASTS PUBLICATION

The Management Board of Eurocash S.A. did not publish financial forecasts for 2018 or 2019.

5.6 CHANGES IN KEY MANAGEMENT PRINCIPLES

Resignation of Member of the Supervisory Board

On 25th April 2018 Mr. Eduardo Aguinaga de Moraes resigned from function of Member of the Supervisory Board of Eurocash with effect on 25th April 2018.

Appointment of Member of the Supervisory Board

On 25th April 2018, in connection to resignation of Mr. Eduardo Aguinaga de Moraes from function of Member of the Supervisory Board of Eurocash, Politra B.V.S.a.r.l. holding 44.04% of the Company share capital, informed the Company that by exercising in the right granted in paragraph 13.2 of the Company States, has appointed Mrs. Alicja Kornasiewicz as a Member of the Supervisory Board of Eurocash.

Appointment and Resignation of Member of the Management Board

On 22nd March 2018 Supervisory Board of Eurocash agreed the resolution regarding the appointment on 1st April 2018 Mr. Paweł Musiał on the function of Member of the Management Board of Company.

On 26th July 2018, Company received a notification from Mr. Paweł Musiał about resignation from the position of Member of the Management Board of Eurocash S.A. with effect as of 31st July 2018. The resignation did not contain information about its causes.

In 2018 there were no other major changes in the basic management principles.

5.7 AGREEMENTS WITH MEMBERS OF THE MANAGEMENT BOARD AS FINANCIAL COMPENSATION GUARANTEES

The Company did not enter into any agreements with the members of the Management Board which would provide compensation guarantees should members of the Management Board resign or be dismissed from their positions without a sound reason.

Agreements with the members of the Management Board anticipate that consist should the majority shareholder change in the Controlling Entity, i.e. the shareholder who holds at least 50% (fifty percent) and 1 (one) share in Eurocash (Politra B.V.s.a.r.l), the notice period in respect of the agreement shall be 12 months.

5.8 INFORMATION ON REGISTERED AUDIT COMPANY

The consolidated financial statements of Eurocash Group for 2018 were audited by Ernst & Young Audyt Polska sp. z o.o. sp. k. on the basis of a contract concluded on 17th July 2017.

The total fees specified in the contract between Eurocash S.A. and the registered audit company payable or paid for the audit and the review of the consolidated financial statements and for other services are presented below:

Table 17 *Eurocash Group: Capital expenditures for audit and review of financial statements*

thousands of PLN	2018	2017
Audit of financial statements	500,0	500,0
Review of financial statements	251,0	251,0
Other services	1,2	1,2
Total capital expenditures	752,2	752,2

6.1 INDICATION OF CORPORATE GOVERNANCE RULES APPLICABLE TO ISSUER

Pursuant to § 29 Sec. 2 of the Warsaw Stock Exchange S.A. Rules in the wording adopted by virtue of the Stock Exchange Council Resolution No. 1/1110/2006 dated January 4, 2006, with further amendments, Eurocash S.A. (hereinafter, the "Company", "Issuer", "Eurocash") is obliged to apply the corporate governance rules set down in the document entitled "Good Practices of Companies Listed on the WSE 2016", which constitutes an attachment to Resolution No. 26/1413/2015 of the Stock Exchange Council dated 13 October 2015 (hereinafter referred to as "Good Practices"), available on the following website https://www.gpw.pl/best-practice.

In the financial year ended on December 31, 2018, the Company complied with the corporate governance principles set out in the document „Good Practices for Companies listed on WSE 2016" in accordance with the statement posted on the website:

https://grupaeurocash.pl/en/investor/corporate-information/corporate-governance

6.2 SHAREHOLDERS STRUCTURE

Shareholders with Direct or Indirect Substantial Shareholding in Eurocash

As at 31st December 2018 the structure of shareholders holding directly or indirectly large blocks of shares in Eurocash S.A. was as below.

Table 18 *Shareholders with Direct or Indirect Substantial Shareholding in Eurocash*

	31.12.2018				31.12.2017			
Shareholder	Number of shares	Share in share capital (%)	Number of shares	Share in total number of votes (%)	Number of shares	Share in share capital (%)	Number of shares	Share in total number of votes (%)
Luis Amaral (directly and indirectly through Politra B.V. S.à.r.l.)	61 287 778	44,04%	61 287 778	44,04%	60 843 178	44,04%	60 843 178	43,56%
AzValor	13 605 690	9,78%	13 014 591	9,35%	7 498 451	5,39%	7 498 451	5,39%
Others	64 269 818	46,18%	64 860 917	46,61%	70 821 657	50,89%	70 821 657	50,89%
Total	139 163 286	100,00%	139 163 286	100,00%	139 163 286	100,00%	139 163 286	100,00%

Number of Eurocash S.A. Shareholding Held by Management and Supervisory Members

The number of company shares held by the management and supervisory members as at 31.12.2018 was as follows:

Table 19 *Shares in the company held by members of the management board and their rights to subscription*

	Eurocash shareholding		Share subscription rights	
Management Board	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Luis Amaral (directly and indirectly through Politra B.V. S.à.r.l.)	61 287 778	60 843 178	0	0
Rui Amaral	347 025	347 025	0	0
Katarzyna Kopaczewska	330 000	330 000	0	0
Arnaldo Guerreiro	325 500	325 500	0	0
Pedro Martinho	875 803	839 069	0	0
Jacek Owczarek	70 750	58 500	0	0
Przemysław Ciaś	1 000	0	0	0

Table 20 *Shares in the company held by supervisory board and rights to subscription*

	Eurocash shareholding		Share subscription rights	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
João Borges de Assuncao	0	0	0	0
Francisco Santos	0	0	0	0
Hans-Joachim Körber	0	0	0	0
Jacek Szwajcowski	0	0	0	0
Alicja Kornasiewicz	0	Not applicable	0	Not applicable

Bearers of All Securities which Grant Special Control Rights and Discussion of Entitlements

No securities which would grant special control rights neither preferential share are noted in the Company. However, the Articles of Association of the Company grant personal rights to a specific shareholder. Pursuant to § 13 Sec. 2 of the Articles of Association, should Politra B.V.S.a.r.l., organized and operating under Dutch law, or any of its legal successor, continues to be a shareholder with 30% or more shareholding in the Company's share capital, it will have the right to appoint and recall 3 (three) Members of the Supervisory Board of Eurocash.

Restrictions regarding Exercising Right to Vote

Each share of Eurocash gives the right to one vote at the Shareholders' Meeting. The Articles of Association do not provide for any restrictions as to exercising the right to vote carried by Eurocash shares, such as restrictions to exercising the right to vote by the holders of a defined part or number of votes, time restrictions related to exercising the right to vote or provisions pursuant to which (with the Company's cooperation) capital interests related to securities are separated from holding securities.

A prohibition on exercising the right to vote by the shareholder may result from art. 89 of the Act dated July 29, 2005 on Public Offerings, and Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies (hereinafter "Act on Offering"), should the shareholder violate specified provisions set forth in Chapter 4 of the Act on Offering. Pursuant to art. 6 § 1 of the Commercial Companies Code, should the controlling entity fail to notify the controlled capital company about the introduction of the dominant relationship within two weeks of the start of the relationship, the right to vote carried by shareholding in the controlling entity which represents over 33% of the share capital of the controlled company is suspended.

Restrictions regarding Transfer of Ownership Rights to Securities of Issuer

The Articles of Association do not provide for any restrictions regarding the transfer of ownership rights to securities of the Issuer. The restrictions, however, arise from the provisions of law, including hereinabove mentioned Chapter 4 of the Act on Offering, art. 11 and 19 and Part VI of the Act dated July 29, 2005 on Trading in Financial Instruments, Act dated February 16, 2007 on the Protection of Competition and Consumers as well as Council Directive (EC) No. 139/2004 dated January 20, 2004 on the control of business consolidations.

Agreements which May Result in Changes of Blocks of Shares Held

Apart from the incentive schemes for managers and employees, the Management Board of Eurocash is not aware of any agreements which could cause changes in the proportion of blocks of shares held by the shareholders in the future.

6.3 DIVERSITY IN THE WORKPLACE

Everyone can take a job in the Eurocash Group regardless of age, gender, national and ethnic origin, race, religion, disability, sexual orientation or political views. The Group does not tolerate any activities and behaviors that have any signs of discrimination against another employee, contractor or third party.

6.4 THE PARENT'S GOVERNING BODIES

Management Board

Composition of the Management Board, changes thereto and rules of appointment

The Company's management body is the Management Board. The Management Board of the Parent is composed of seven members. The composition of the Management Board at the day of December 31st 2018 is presented below.

Name	Position
Luis Manuel Conceicao do Amaral	President of the Management Board
Rui Amaral	Member of the Management Board - CEO
Arnaldo Guerreiro	Member of the Management Board
Pedro Martinho	Member of the Management Board
Katarzyna Kopaczewska	Member of the Management Board – HR Director
Jacek Owczarek	Member of the Management Board – Financial Director
Przemysław Ciaś	Member of the Management Board

Table 21 *The composition of the Management Board at the end of 2018*

On 22nd March 2018 Supervisory Board of Eurocash agreed the resolution regarding the appointment on 1st April 2018 Mr. Paweł Musiał on the function of Member of the Management Board of Company.

On 26th July 2018, Company received a notification from Mr. Paweł Musiał about resignation from the position of Member of the Management Board of Eurocash S.A. with effect as of 31st July 2018. The resignation did not contain information about its causes.

Powers of the Management Board

The Management Board manages the Company's affairs and represents the Company. Two members of the Management Board acting jointly or one member of the Management Board acting jointly with a holder of a commercial power of attorney may submit statements of will and sign documents on behalf of the Company.
The work of the Management Board is headed by the President of the Management Board. All members of the Management Board are obliged and entitled to jointly manage the Company's affairs, in particular in the following scopes:

I. determine the long- and medium-term development strategy as well as main objectives of the Company operations, increase the Company value to the shareholders and report them to the Supervisory Board, review the level of achievement of such goals and modify them if necessary,
II. define the Company's financial goals,
III. implement and follow through the long- and medium-term development strategy as well as the main Company's operating objectives and financial goals,
IV. analyze major investment projects and related methods of funding,
V. determine the principles of HR and remuneration policies, including:
- appointment of the Company's key management staff,
- determining principles of employment, remuneration, and HR policies, as well as conducting a periodical analysis of the HR situation in the Company,

VI. establish the Company's organizational structure,
VII. approve the annual and/or long-term Company's budget,
VIII. determine an internal division of duties and responsibilities for Management Board Members,
IX. set down Rules and other internal regulations of the Company unless the provisions of law or Articles of Association provide otherwise,

X. take decisions on matters of exceptional importance as well as matters and transactions which may constitute material risk to the Company in line with the justified opinion of the Management Board Member,
XI. request that the Supervisory Board submit an appraisal of draft resolutions which are to be presented to Shareholders at the Shareholders' Meeting,
XII. any other actions which go beyond the ordinary management of the Company.

In the remaining scope, respective Management Board members are responsible for independent management of Company affairs resulting from an internal allocation of duties and functions determined by the decision of the Management Board.

The Management Board may adopt resolutions at the Management Board meeting or outside the Management Board meeting in writing or as facilitated by remote communication tools. Resolutions of the Management Board are adopted by a simple majority of votes cast by Management Board members. Minutes of the resolutions are taken. Proper notification of the meeting to all Management Board members is required for the validity of the Management Board resolutions.
Detailed Management Board procedures are defined in Management Board Rules adopted by the Management Board and approved by the Supervisory Board. The content of the most up-to-date Management Board Rules is available at:

https://grupaeurocash.pl/assets/media/eurocash-by-laws-of-the-management-board2672858461.pdf

Remuneration, bonuses and employment contract terms of the Management Board Members

Information on remuneration paid to the members of the Management Board in 2018 is provided in the section of the annual report which contains the annual consolidated financial statements,
in Note 31.

Supervisory Board

Composition of the Supervisory Board, changes thereto and rules of appointment

The Supervisory Board is composed of 5 members, whereby the right to appoint and recall 3 (three) members of the Supervisory Board is held by Politra B.V.S.a.r.l. (or its legal successor) as specified above, while 2 members of the Supervisory Board are appointed and recalled by the General Shareholders' Meeting. The Supervisory Board member may be recalled only when the action is accompanied by a simultaneous appointment of the new Supervisory Board member.

The composition of the Supervisory Board in the period January 1st – December 31st 2018 was as presented in the table below.

Table 22 *The composition of the Supervisory Board in 2018*

Name	Position
João Borges de Assuncao	Chairman of the Supervisory Board
Francisco José Valente Hipólito dos Santos	Member of the Supervisory Board
Hans Joachim Körber	Member of the Supervisory Board
Jacek Szwajcowski	Member of the Supervisory Board
Alicja Kornasiewicz	Member of the Supervisory Board

The status of independent Supervisory Board members is held by the following persons:

- Mr. Jacek Szwajcowski and Hans Joachim Körber as Supervisory Board members, appointed by the Company's General Shareholders' Meeting, and
- Mr. João Borges de Assunção, and Ms. Alicja Kornasiewicz appointed by Politra B.V. S.a.r.l, who submitted representation which meet criteria of an independent Supervisory Board member.

Thus, 4 of the 5 Supervisory Board members of the Company are "independent members".

The Board selects its President from amongst its members. The Supervisory Board may also recall the President of the Board from his function. The Supervisory Board exercises an on-going supervision of Company operations in all areas.

Powers of the Supervisory Board

Pursuant to § 14 Sec. 2 of the Issuer's Statutes, powers of the Supervisory Board include, in particular:

- review and assessment of the Management Board's report on the Company's activities and the Company's financial statements for their consistency with accounting books and documentation, as well as the actual state of affairs;
- assessment of the Management Board's recommendations concerning distribution of profit or loss cover;
- submitting to the General Shareholders' Meeting an annual written report on the results of the assessment referred to above;
- appointing and recalling, as well as suspending Members of the Management Board for an important reason;
- issuing opinions on planned amendments to the Company's Articles of Association;
- approving annual budgets drafted by the Management Board and amendments to such budgets no later than by 30 November of each calendar year;
- issuing opinions on granting loans or financial assistance as well as concluding agreements with any Member of the Management Board which fall outside an ordinary course of business;
- electing an expert auditor to examine the Company's financial statements;
- adopting a uniform text of the Articles of Association;
- other matters which require a resolution of the Supervisory Board under binding legal regulations or other provisions of the Articles of Association.

The following actions of the Management Board shall require the Supervisory Board's consent issued in the form of a resolution:

- decisions concerning joint-ventures with other entities;
- decisions concerning mergers with other entities as well as acquisitions of other entities or enterprises;
- incurring any liability in excess of PLN 100,000,000 and the encumbrance on the Company's assets with a value in excess of PLN 150,000,000 if such transactions have not been provided for in the annual budget;
- sale or lease or transfer of the Company's assets with the value in excess of EUR 1,000,000 or its zloty equivalent if such a transaction has not been provided for in the annual budget;
- issuing opinions concerning the determination and changes in remuneration levels or terms of employment of Management Board Members;
- raising, issue, taking up or disposal of shares in another subsidiary entity;
- development and modification of any stock option scheme or an incentive scheme of a similar nature for the Company's management and employees;
- the conclusion of a material agreement by the Company with a related entity as interpreted by the regulations concerning the submission of current and periodical information by issuers whose shares are quoted on the Stock Exchange in Warsaw S.A. except for standard transactions concluded on market terms as part of company operations entered into by the Company with its subsidiary entity in which the Company is a majority shareholder.

The Supervisory Board performs its duties as a group. The Supervisory Board may delegate specific supervisory tasks to individual Members by way of a resolution adopted by a simple majority of votes.

Supervisory Board members perform their duties personally. However, they may participate in an adoption of resolutions of the Supervisory Board by voting in writing through another Supervisory Board member. The Supervisory Board may adopt resolutions at a session or in writing or by using remote communication tools. Resolutions of the Supervisory Board are adopted by a simple majority of votes in the presence of at least 3 members of the Board. Should an even number of votes be cast in 'favor of' and 'against' a resolution, the President of the Supervisory Board shall have the casting vote.

Moreover, the consent of the majority of independent Supervisory Board members is required for the adoption by the Supervisory Board of resolutions in the following matters:

- any action by the Company or any of its related entity that benefits the Members of the Management Board;
- election of an expert auditor to examine the Company's financial statements;

- issuing opinions on granting loans or financial assistance as well as concluding agreements with any Member of the Management Board which fall outside an ordinary course of business;
- granting the Management Board the approval to limit or waive in full the priority rights (pre-emptive rights) of the Company's shareholders with respect to any of the Company's shares to be issued within the limits of the authorized capital.

The detailed procedure of operations of the Supervisory Board is set out by the Supervisory Board Rules. The content of applicable Supervisory Board Rules is available at the following address:

https://grupaeurocash.pl/assets/media/by-laws-of-the-supervisory-board-of-eurocash-sa-2018.pdf

Remuneration, bonuses and employment contract terms of the Supervisory Board Members

Information on remuneration paid to the members of the Supervisory Board in 2018 is provided in the section of the annual report which contains the annual consolidated financial statements, in Note 31.

Supervisory Board Committees

The following internal committees operate under the auspices of the Supervisory Board:

I. the Audit Committee,
II. the Remunerations Committee,
III. the Nomination Committee.

The members of each of the said committees are selected by the Supervisory Board where the Remunerations Committee should include at least one independent Supervisory Board member while the Audit Committee should include at least two independent Supervisory Board members and one member who is a financial specialist, i.e. a person having pertinent experience in finance management and accountancy in public companies or other companies of comparable size.

Responsibilities of the Audit Committee include as follows

a) monitorig:
I. the financial reporting process;

II. the effectiveness of the Company's internal control and risk management systems and internal audit, including in the scope of the financial reporting process; and
III. financial revision, in particular the audit including all motions and findings of the Audit Supervision Commission (Polish: Komisja Nadzoru Audytowego) arising from the control in the audit firm;
b) supervising the submission of financial information by the Company in the periodical reports, forecasts, etc,
c) supervising the activities of external auditors of the Company,
d) presenting the recommendations to appoint an audit firm to the Supervisory Board in compliance with the adopted policy and procedure of the appointment, where audit firm cannot render its services for longer than 5 years; controlling and monitoring of the independence of the statutory auditor and the audit firm, in particular if the audit firm provides the Company with other services than audit,
e) supervising the relationship with the statutory auditor, including in particular:
I. assessing the statutory auditor's independence, remuneration and any nonauditing work for the Company,
II. granting consent to render by the statutory auditor additional permitted services, other than audit
III. determining the involvement of the external auditor in respect of the contents and publication of financial reporting,
f) informing the Supervisory Board on results of the of the audit and how the audit contributed to the integrity of financial reporting and on the role of the Audit Committee in the audit process;
g) each year evaluating internal control system functioning and the significant risk management system functioning as well as evaluating its own functioning in a form of an annual report of its deliberations, findings and relationship with the external auditor (including in particular his independence) to be included as a part of the Supervisory Board's annual report to be presented at the Ordinary General Assembly;
h) preparing procedures of appointment of the audit firm by the Company
i) preparing the policy of appointment of the audit firm for an audit of the Company's yearly separate and consolidated financial statements;
j) preparing policy for rendering by the audit firm performing audit, its affiliated entities and members of its network of the permitted services other that the audit
k) submit recommendations to ensure the integrity of financial reporting by the Company.

The Audit Committee is composed of the following members: Alicja Kornasiewicz (Chairman), Francisco José Valente Hipólito dos Santos and Jacek Szwajcowski.

Responsibilities of the Remunerations Committee include as follows:

a) reporting to the Supervisory Board of the existence of a remuneration policy for the Management Board, which is

known to the Remunerations Committee in sufficient detail, including
I. the remuneration structure,
II. the amount of fixed remuneration,
III. the shares and/or options and/or other variable remuneration components and other forms of remuneration, as well as the performance criteria and the application thereof by Management Board Members,
b) each year, submitting a proposal for the Supervisory Board's approval for an appraisal concerning the compliance of the remuneration policy for the Management Board and application thereof with regard to the desired standards of corporate governance,
c) ensuring the disclosure to the Supervisory Board of the remuneration of the Management Board resulting from an implementation of the remuneration policy,
d) each year, submitting a self-assessment in the form of an annual report of its performance to be included as part of the Supervisory Board's annual report and to be presented at the Ordinary General Meeting of Shareholders.

The Remunerations Committee is composed of the following members: Francisco José Valente Hipólito dos Santos (Chairman), Alicja Kornasiewicz and Hans Joachim Körber.

The responsibilities of the Nomination Committee shall include:

a) to identify and recommend (for the Supervisory Board's approval) the candidates for the Supervisory Board members appointed by the General Assembly in connection with existing or expected vacancy in the Supervisory Board (including the end of the Supervisory Board's term)
b) to opine on candidates for Supervisory Board members elected by the General Assembly proposed by the shareholders of the Company,
c) to identify and recommend candidates for the Management Board members appointed by the Supervisory Board, in connection with existing or expected vacancy in the Management Board (including the Management Board member's or President's end of the term);
d) each year evaluating its own functioning in a form an annual report of its activities to be included as a part of the Supervisory Board's annual report to be presented at the Ordinary General Assembly.

The Nomination Committee is composed of the following members: João Borges de Assunção (Chairman), Alicja Kornasiewicz, Hans Joachim Körber.

The rules governing the operations of these committees are regulated in detail in Section VII of the Supervisory Board

Rules available at the following address:

https://grupaeurocash.pl/assets/media/by-laws-of-the-supervisory-board-of-eurocash-sa-2018.pdf

General Shareholders' Meeting

The manner of conduct applicable to the General Shareholders' Meeting and its fundamental powers follow directly from the provisions of law which were partly incorporated in the Statutes and By-laws of the Company's General Shareholders' Meeting. Both the Statutes and the By-laws of the General Shareholders' Meeting are available on the Company's website at the following link:

https://grupaeurocash.pl/assets/media/by-laws-of-the-general-assembly-of-eurocash-sa-2018.pdf

As of 3 August 2009, in line with § 15 item 3 of the Statutes and in line with § 1 item 3 of the By-laws of the Company's General Shareholders' Meeting, the Meeting is convened by way of an announcement which contains all items stipulated in art. 402 of the Commercial Companies' Code, made no later than 26 days prior to the date of the General Shareholders' Meeting by way of posting the announcement on the Company's website in line with the provisions of binding information submission stipulated in the Act on Offering.

Each General Shareholders' Meeting should be attended by members of the Supervisory Board and the Management Board in the number which will facilitate a provision of technical answers to queries rose in the course of the Meeting. A chartered auditor should attend the Annual Ordinary General Meeting of Shareholders as well as the Extraordinary General Meeting of Shareholders if financial matters of the Company are discussed. Members of the Supervisory Board, the Management Board and the chartered auditor should offer explanations and supply information related to the Company within their discretion and to the extent necessary for the resolution of matters discussed in the Meeting.

The General Meeting may be attended by members of the Management Board and Supervisory Board, certified auditor, if the Company's financial affairs are to be discussed, experts invited by the body which convenes the General Meeting, the notary who draws up the minutes of the General Meeting, and representatives of mass media. Other persons may participate in the General Meeting with the consent of the Chairman of the General Meeting.
According to the Articles of Association, the powers of the General Meeting include in particular:

- review and approval of the Management Board Report on the operations of the Company and financial statements for the previous financial year, and granting approval to members of the Company's governing bodies for the performance of their duties;
- decisions concerning claims to remedy damage inflicted at the time of the Company's establishment or in connection to its management by the Management Board;
- sale or lease of the enterprise or an organized part thereof as well as the creation of limited property rights therein;
- creation of the Company's capitals and funds and their allocation;
- approval of the Company's long-term strategic plans;
- adopting resolutions on the distribution of profit and loss cover;
- amending the Articles of Association;
- increasing and decreasing the Company's share capital;
- dissolution or liquidation of the Company;
- authorization for the Company to enter into a standby or firm commitment underwriting agreements;
- taking decisions in other matters which rest within the exclusive competence of the General Meeting pursuant to the provisions of the Commercial Companies Code or other laws or pursuant to the Company's Statutes.

6.5 DISCUSSION OF AMENDMENTS TO ISSUER'S STATUTES

A resolution adopted by the Shareholders' Meeting concerning amendments to the Statutes must be preceded by an appraisal issued by the Company's Supervisory Board. Amendments to the provisions of the Statutes which consist in material changes to the subject matter of the Company's business operations without share buyout from shareholders who do not consent to the amendments requires that the resolution of the General Shareholders' Meeting be adopted by the majority of ¾ votes cast in the presence of shareholders who represent at least 50% of the Company's share capital.

Amendments to the provisions of the Statutes which concern a decrease in the Company's share capital requires that the resolution of the General Shareholders' Meeting be adopted by the majority of ¾ votes.

Amendments to the provisions of the Statutes which concern any other matters require that the resolution of the General Shareholders' Meeting be adopted by the absolute majority of votes unless the provisions of the Commercial Companies Code or the Act on Offering stipulate otherwise.

6.6 DISCUSSION OF PREMISES FOR APPOINTING AND RECALLING MANAGEMENT STAFF AND THEIR ENTITLEMENTS - IN PARTICULAR RIGHT TO TAKE DECISIONS ON SHARE ISSUE OR BUYOUT

Pursuant to § 9 Sec. 1 and 2 of the Articles of Association, the Management Board consists of 2 to 10 members appointed by the Supervisory Board for an individual three-year term of office. The number of members on the Management Board is determined by the Supervisory Board. The Supervisory Board also appoints one member of the Management Board as President of the Management Board by way of resolution. Any Management Board member may be recalled from office by way of a resolution adopted by the Supervisory Board or the General Shareholders' Meeting of the Company.

The scope of activities of the Management Board includes any and all affairs of the Company not reserved for the powers of the General Shareholders' Meeting and the Supervisory Board. The range of powers of the General Shareholders' Meeting and the scope of powers of the Supervisory Board are defined in Point 6.3 of the Report.
The Management Board manages the affairs of the Company and represents the Company externally. The Management Board may decide on the share buyout in circumstances and on terms determined in commonly applicable provisions of law. The detailed rules governing the functioning of the Management Board are stipulated in Point 6.3 of the Report.

6.7 INFORMATION ON EMPLOYEE SHARES CONTROL SYSTEM

April 25, 2017 by Resolutions of the Ordinary General Meeting of Eurocash S.A. a decision was made to issue shares as part of Employee Motivation and Bonus Programs for 2017-2019 (Programs XI - XVI). Incentive programs were introduced in connection with the intention to continue incentive programs from previous years for managers, executives and persons who are fundamental to the operations of the Company and the Eurocash Group and to create the basis for enabling outstanding employees to take up shares in the Company as part of the bonus.

Incentive programs assume for issuance of up to 4.200.000 shares (approximately 3% of the current number of shares). The period of exercise of the options (subscription rights for convertible bonds) is 3-5 years. The issue price of shares in Incentive Programs will be equal to the average price of Eurocash shares on the Warsaw Stock Exchange S.A. on the day of quotations immediately preceding the resolution of the General Meeting on the establishment of these Programs.

The programs cover a total of 6 tranches of 700.000 shares:

- 700.000 ordinary shares of the „XI Program" to be implemented in the period from 01.04.2020 to 30.04.2022,
- 700.000 ordinary shares of the „XII Program" to be implemented in the period from 01.04.2020 to 30.04.2022,
- 700.000 ordinary shares of the „XIII Program" to be implemented in the period from 01.04.2021 to 30.04.2023,
- 700.000 ordinary shares of the „XIV Program" to be implemented in the period from 01.04.2021 to 30.04.2023,
- 700.000 ordinary shares of the „XV Program" to be implemented in the period from 01.04.2022 to 30.04.2024,
- 700.000 ordinary shares of the „XVI Program" to be implemented in the period from 01.04.2022 to 30.04.2024,

In the year ended 31.12.2018, no options for Eurocash Group shares have been exercised.
The fair value of shares granted in the period from 01.01.2018 to 31.12.2018 amounted to PLN 3.920.000 and is recognized as an expense in the income statement for this period (in the year ended 31 December 2018, no share options were granted).

The fair value of employee shares programs is estimated as at the date of granting options based on the binominal model.

6.8 KEY FEATURES OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS APPLIED BY THE COMPANY IN DRAFTING FINANCIAL STATEMENTS

The Management Board of the Controlling Entity is responsible for the Group's internal control system and its effectiveness in the process of drafting financial statements and periodical reports drawn up and published in accordance with the stipulations set forth in the Decree dated February 19, 2009 on current and periodical information submitted by issuers of securities and on terms on which information required under the provisions of law of a country not being a member country is recognized as equivalent.

The Management Board of the Controlling Entity is responsible for mapping out and following the risk management policy. To ensure that these duties are carried out, the Management Board appointed the Risk Management Team which is responsible for developing and monitoring the risk management policy. The Team regularly submits reports on its work progress to the Management Board.

The Risk Management Team was appointed to identify and analyze risks related to the Group's operations and to establish adequate risk controls and risk limits as well as to monitor deviations noted from the limits. The risk management policy and system are reviewed on a regular basis so that they reflect ongoing changes in market conditions and the Group's operations. The Group strives to achieve a disciplined and constructive control of the environment where every employee would understand their roles and duties through skills (qualifications) enhancement and an application of standards and procedures by the Group.

The Financial Department of the Controlling Entity headed by the Financial Director is in charge of drafting consolidated financial statements and periodical reports of the Group. Financial data which is the basis for consolidated financial statements and periodical reports are sourced from monthly financial and management reporting applied by the Group's member companies. After each calendar month is closed for accounting purposes, middle and top management jointly analyzes the companies' financial performance against relevant budget assumptions.

One of the basic elements of control in the process of drafting consolidated financial statements is the review of consolidated financial statements by an independent auditor. The auditor's primary task is to review the semi-annual financial statements and carry out a preliminary and basic examination of the consolidated annual statements. The independent auditor is elected by the Company's Supervisory Board. The audited financial statements are forwarded to the members of the Supervisory Board of the Controlling Entity for the review of the Group's financial statements.

Internal control exercised by the Internal Audit Department of the Controlling Entity is an important element of risk management in the process of drafting financial statements. Duties of the Department include the implementation of the risk management policy and procedures. The Internal Audit Department carries out both scheduled audits as well as ad hoc checks on procedures.

The annual program of the planned internal audits is developed on the basis of the risk assessment of business processes carried out by the Internal Audit Director in cooperation with the Management Board of the |Controlling Entity. The planned audits are supplemented by ad hoc audits carried out at the request of the Management Board of the Controlling Entity as well as review audits concerning recommendations for enhanced control mechanisms across the Group.

The Company conducts an annual review of both business strategy and plans. The budgeting process is supported by the Group's middle and top management. The budget and business plan drafted for the subsequent year is adopted by the Management Board of the Controlling Entity and approved by the Supervisory Board. During the year, the Management Board of the Controlling Entity analyses financial performance against budget adopted in line with the Group's adopted accounting policy.

Additionally Management Board at the beginning of the year 2018 settled position of Corporate Director, responsible for compliance management within Eurocash Group and implementation all legislative changes e.g. General Data Protection Regulation.

The Management Board of the Controlling Entity systematically evaluates the quality of internal control and risk management systems in relation to the process of drafting consolidated financial statements. In line with such evaluation, the Management Board of the Controlling Entity declared that as at December 31, 2018 no weaknesses existed which could have a material adverse effect on the effectiveness of internal controls as far as financial reporting is concerned.

6.9. INFORMATION ABOUT SELECTION OF AN AUDIT FIRM

The Management Board submits information prepared on the basis of the Supervisory Board's statement that on 25 April 2018 the Supervisory Board selected an auditing company that audited the annual standalone and consolidated financial statements in accordance with the regulations and procedure for selecting an audit firm, indicating that:
• the audit firm and the members of the audit team met the conditions for drawing up an impartial and independent audit report on the annual financial statements in accordance with applicable regulations, professional standards and professional ethics,
• the applicable regulations related to the rotation of the audit firm and the key statutory auditor and mandatory grace periods are observed,
• The Company has a policy regarding the selection of an auditing company and a policy for providing the Company with an auditor, an entity related to the auditing company or a member of its network of additional non-audit services, including conditionally exempt services from the audit company;

6.10. INFORMATION ABOUT STATEMENT OF THE SUPERVISORY BOARD OF EUROCASH S.A. REGARDING AUDIT COMMITTEE OF SUPERVISORY BOARD OF EUROCASH S.A.

- Eurocash S.A. comply with the legal requirements regarding the appointment, composition and functioning of the audit committee, including fulfilling the independence criteria of its members, their knowledge and skills on the scope of activities conducted by the Eurocash S.A. and on accounting and reviewing of the financial statements,
- the Audit Committee of the Supervisory Board of Eurocash S.A. fulfilled its legal obligations as required by common binding law.

6.11. INFORMATION ABOUT VALUATION OF THE SUPERVISORY BOARD OF EUROCASH S.A. WITH REASONING CONCERNING THE CONSOLIDATED FINANCIAL STATEMENTS OF THE CAPITAL GROUP OF EUROCASH S.A. FOR 2018, THE FINANCIAL STATEMENT OF EUROCASH S.A. FOR 2018, THE MANAGEMENT BOARD REPORT ON THE OPERATIONS OF EUROCASH S.A. CAPITAL GROUP FOR 2018 AND THE MANAGEMENT BOARD REPORT ON THE OPERATIONS OF EUROCASH S.A. FOR 2018 AS REGARDS THEIR CONFORMITY WITH BOOKS, DOCUMENTS AND FACTS

The Supervisory Board of Eurocash S.A. on the basis of:

1) the consolidated financial statement of the Capital Group Eurocash S.A. for 2018 and the financial statements of Eurocash S.A. for 2018,

2) the Management Board report on the operations of Eurocash S.A. Capital Group for 2018 and the Management Board report on the operations of Eurocash S.A. for 2018,

3) the reports from the examination of the separate and consolidated financial statements and the additional report of the auditing company for Audit Committee of the Supervisory Board of Eurocash S.A,
4) meetings with representatives of the audit firm,
5) recommendation of the Audit Committee of the Supervisory Board of Eurocash S.A. regarding the opinion on the audited financial statements,
made a positive valuation of:
1) the consolidated financial statement of the Capital Group Eurocash S.A. for 2018,
2) the financial statement of Eurocash S.A. for 2018,
3) the Management Board report on the operations of Eurocash S.A. Capital Group for 2018,
4) the Management Board report on the operations of Eurocash S.A. for 2018

with regard to their conformity with books, documents and facts.

In the opinion of the independent expert auditor the financial statements of Eurocash S.A. and the consolidated financial statement of Eurocash S.A. Capital Group present a reliable and clear picture of the assets and financial situation of Eurocash S.A. and Eurocash S.A. Capital Group as at 31 December 2018 and of the financial result for the financial year as from 1 January 2018 to 31 December 2018, in accordance with International Accounting Standards, International Financial Reporting Standards and accounting principles (policy), and is consistent as to form and contents with applicable laws. In the opinion of the independent expert auditor the Management Board report on the operations of Eurocash S.A. for 2018 and Eurocash S.A. Capital Group in 2018 was prepared in accordance with the applicable regulations and is consistent with the information contained in the financial statements of Eurocash S.A. and Eurocash S.A. Capital Group.

In the opinion of the Supervisory Board of Eurocash S.A. the submitted financial statements for 2018, including the statement of financial position, the separate profit and loss account and the separate statement of comprehensive income, the separate statement of changes in equity and the separate cash flow statement, reflect correctly and reliably the result of the Company's business activity for the above financial year and the Company's assets and financial situation as at 31 December 2018.

In the opinion of the Supervisory Board, the submitted consolidated financial statement for 2018, including the consolidated statement of financial position, consolidated profit and loss account and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement reflect correctly and reliably the result of the business activity of the Company's Capital Group for the above financial year and the assets and financial situation of the Company's Capital Group as at 31 December 2018.

In the opinion of the Supervisory Board, the reports of the Management Board on the operations of Eurocash S.A. and Eurocash S.A. Capital Group for 2018 were prepared in a reliable and exhaustive manner.

6.12. INFORMATION REGARDING AUDIT COMMITTEE

1. The following members of the Audit Committee meet the statutory independence criteria: Mrs. Alicja Kornasiewicz and Mr. Jacek Szwajcowski
2. The following Members of the Audit Committee have knowledge and skills in the field of accounting or auditing of financial statements:

- Mr. Francisco José Valente Hipólito dos Santos has a third-level education with a specialist area in Business Management. He completed his studies in 1984 at the Portuguese Catholic University in Lisbon (Universidade Católica Portuguesa). Between 1999 and 2003 he was a member of the management board of Barclays Bank in Portugal. In years 2003 and 2006 he was managing Marketing Department in Banco Espirito Santo PLC and between 2007 and 2011 he was director in Savings Department of that bank. In the period of 2011 – 2012 Mr Santos was Managing Director in Banco BEST PLC. Since the beginning of 2013 he was a Non-managing Director and management board advisor to international cases in Banco Espirito Santo PLC until August 2014, when he assumed the function of Compliance Officer at Novo Bonco, which he held until June 2017. Then he held managerial positions in many companies from various sectors, including the real estate, travel and FMCG sector. Mr. Francisco José Valente Hipólito dos Santos since 2013, he is a member of the Eurocash Supervisory Board.

- Mr. Eduardo Aguinaga de Moraes (Member of the Audit Committee until April 25, 2018) has a third-level economic education. He has worked at managerial positions at Citicorp and Bank of Boston. He also took part in forming Comissão de Valores Mobiliários (Brazil's Securities and Exchange Commission). In the years 1982- 1986 he was financial director in the company St. Joe Minerals Corp. in Brazil. He was also partner in Bank SRL, a leading Brazilian investment bank. From 1996 to 2002 Eduardo Aguinaga de Moraes was the Brazilian partner-resident of the firm Private Equity Fund TCW/LAEP LLP, and in this respect he held the function of member of the Management Board of the local portfolio companies. In the years 2006-2008 he was member of the Management Board in LAEP INVESTMENTS LTD and the member of the Supervisory Board in Parmalat Industrias de Alimentom LTD. Since 2006 Mr Eduardo Aguinaga de Moraes is a Managing Director for Cidade Jardim Materiais de Construcao and since 2007, he is a member of the Supervisory Board in Home Center Nordeste.
- Alicja Kornasiewicz- Chairman of the Audit Committee, PhD in economics, graduate of Harvard Business School in

Boston and Executive Management Programme (INSEAD) in Paris. The auditor. First representative from Central and Eastern Europe at the Foundation of the International Accounting Standards Commitee (IASC). Former Member of the Examination Board of the National Chamber of Statutory Auditors, member of the Securities and Stock Exchange Commission.

3. The following member of the Audit Committee has knowledge and skills in the sector in which the Company operates:
- Mr. Jacek Szwajcowski - entrepreneur, founder and president of the management board of Pelion Healthcare Group. The company runs retail, wholesale and hospitals supply. Pelion Helthcare Group exists on the market for 23 years and is currently one of the biggest groups on the healthcare market in Poland and Lithuania, with approximately USD 2bln sales, hiring 7 000 employees and managing the net of warehouses and 1 400 pharmacies. Mr Jacek Szwajcowski finished studies at the Mechanical Faculty of the Technical University in Łódź and has over 21 years of experience in managing pharmaceutical sector. Since the year 2000 Mr Jacek is a member of World Economic Forum in Davos. Since 2001 he is also a board member of Polish Business Roundtable. In 2005 he became a member of the international organization – Forum of Young Global Leaders.

4. The policy of selecting an audit firm
The auditor is selected in extension of the current contract or tender, under which the evaluation of offers takes place under the following criteria:
- understanding the business, the trends affecting the Company - tenderers should describe their perception of the FMCG sector (wholesale and retail), current issues affecting the Company in terms of competitiveness, reporting, legal and tax issues and provide a map of the audit risks;
- experience in audit and non-audit services for FMCG sector companies;
- experience in auditing of companies listed on Warsaw Stock Exchange (WIG20 preferred), knowledge of standards of corporate governance and reporting of listed companies;
- people – auditor's team members should be an experts in their field, have access to technical knowledge and be familiar with the latest trends within IFRS etc. (tenderers should provide accurate CV of leaders and team members);
- the organization – the auditor needs to be capable of serving needs of the Company - have adequate coverage and resources to conduct the audit (offices across Poland, preparation for cooperation with international Management and Supervisory Board etc);
- independence - the tenderer should provide a detailed description of the tasks carried out on behalf of the Company and other companies from FMCG sector;
- approach to the audit – whether it meets the needs of the Company and provides an added value (what is expected from the auditor);

• the opportunity for the Company to access to the auditor's specialized sector teams and to benefit from the knowledge of experts in the specific sectors;
• fee.

Auditor, ie . Ernst & Young Audyt Polska sp. z o.o. sp. k. carried out an audit of the Company's reports for 2018 following a choice made by the Supervisory Board of Eurocash S.A. pursuant to § 14.2 of the Company's Statute on April 25, 2018. The auditor meets the selection criteria. In the opinion of the Audit Committee, the Company's auditor, due to the fact that has no other business connections with the Company, may perform functions independently.
5.The Audit Committee in 2018 held two meetings: on April 25 and June 27, and three teleconferences on March 22, August 28 and October 26.

7.1 ACCURACY AND RELIABILITY OF REPORTS PRESENTED

Members of the Management Board of Eurocash S.A. represent that - to their best knowledge:

- the consolidated annual financial statements for the Eurocash S.A. capital group and comparative data were drawn up in accordance with the applicable accounting principles and give, diligent, and transparent view of the economic and financial position of the Eurocash Group and of its financial performance for 2018,
- the report of the Management Board on business operations of Eurocash Group in 2018 contains a true view of the development, achievements, and the position of Eurocash Group, including the discussion of main risks and threats,
- prepared in a separate form the non-financial report is in accordance with the applicable principles of the Accounting Act and contains a true picture of the activities of the Eurocash Group in this area.

7.2 APPOINTMENT OF ENTITY QUALIFIED TO AUDIT FINANCIAL STATEMENTS

The Supervisory Board of Eurocash, acting under par.14 point 2 Statute of the Company, on 25 April 2017, chose Ernst&Young Audyt Polska Sp. z o.o. sp. k. with its registered office in Warsaw, entered by the National Chamber of Statutory Auditors on the list of entities authorized to audit financial statements under No. 130, on the external auditor to examine the company's financial statements for the year 2018.

The members of the Management Board of Eurocash S.A. represent that Ernst & Young Audyt Polska sp. z o.o. sp. k., the entity qualified to audit financial statements which audited the annual consolidated financial statements of the Eurocash Group was appointed in line with the applicable laws and regulations. The entity and the auditors involved met the criteria to formulate an impartial and independent opinion on the audit of the annual consolidated financial reports in line with the applicable provisions of law and professional standards.

7.3 APPENDIX A: FINANCIAL RATIOS DEFINITIONS

Gross profit margin on sales:	ratio of gross sales margin to net sales revenues
EBITDA margin:	ratio of EBITDA (operating profit plus depreciation) to net sales revenues
Operating profit margin:	ratio of operating profit (EBIT) to net sales revenue
Net profit margin on sales:	ratio of net profit to net sales revenue
Inventories turnover:	the ratio of balance of stock at the end of period to net sales for period multiplied by the number of days in the period
Trade receivables turnover:	the ratio of balance of trade receivables at the end of period to net sales for period multiplied be the number of days in the period
Trade liabilities turnover:	the ratio of balance of trade liabilities at end of period to costs of goods sold for period multiplied by the number of days in the period
Operating cycle:	the sum of stock turnover and receivables turnover
Cash conversion cycle:	the difference between operating cycle and liabilities turnover

SIGNATURES OF MANAGEMENT BOARD MEMBERS

Position	Name and surname	Date	Signature
President	Luis Amaral	5 June 2019	
Management Board Member Chief Executive Officer	Rui Amaral	5 June 2019	
Management Board Member	Arnaldo Guerreiro	5 June 2019	
Management Board Member	Pedro Martinho	5 June 2019	
Management Board Member Human Resources Director	Katarzyna Kopaczewska	5 June 2019	
Management Board Member Financial Director	Jacek Owczarek	5 June 2019	
Management Board Member	Przemysław Clas	5 June 2019	

PART B

NON-FINANCIAL REPORT
CORPORATE SOCIAL RESPONSIBILITY

FOR THE PERIOD FROM 1 JANUARY 2018 TO 31 DECEMBER 2018

KOMORNIKI, 15 March 2019

CONTENTS

LETTER FROM A BOARD MEMBER

Dear Ladies and Gentlemen,

Managing the Eurocash Group, we believe in the power of entrepreneurship. As the largest partner of independent entrepreneurs in Poland, we believe that there is no other way to success than responsible entrepreneurship. It is the foundation of our activities, which is why in 2018 we adopted and implemented the strategy of Corporate Social Responsibility (CSR) in our organization. Within this framework, we defined four main pillars of the Eurocash Group's sustainability: **(1) Eurocash's impact on the Environment, (2) Food Quality and Safety, (3) Good Work Environment and (4) The future of Entrepreneurship** and its impact on local communities. The following report was based on the assumptions of these pillars.

The year 2018 was rich in CSR initiatives. As part of the **Eurocash's Impact on the Environment** pillar, it is worth mentioning that the Eurocash Group continued the expansion of the hybrid fleet, which today is the largest corporate fleet of this type in the country. What's more, we successfully implemented the Driving Safety and Ecology Improvement Program, which translated into an increase in the number of kilometers traveled per 1 liter of fuel by over 10%. At the end of the year, however, we have decided to completely abandon the purchase of diesel cars for the benefit of gasoline and hybrid units, which produce much less harmful air pollutants - particulate matter and nitrogen dioxide.

1 809
SUPPLIERS

49 000
PRODUCTS

The Quality and Food Safety Pillar is primarily the cooperation with more than 1 800 suppliers, thanks to which we could offer our clients about 49 thousand SKU. It is almost twice as many suppliers and several times as many SKUs as compared to large discount chains. Thanks to this cooperation, we were able to develop the distribution of a number of branded goods manufactured mainly in Poland, which has a considerable impact on our domestic economy. Taking care of food safety, we conduct audits and certification of quality standards every year: ISO 22000: 2005, BRC Global Standard, IFS Logistics as well as MSC and ASC.

The Good Work Environment pillar, refers to work safety, caring for the development of our employees or strengthening good communication, thanks to which we are able to create a stimulating and friendly workplace for over 20,000 people employed by us. The most important achievement in this area is the reduction of the number of accidents, despite a significant increase in employment. In addition, thousands of our employees could benefit from dedicated training both as part of the workshops and through advanced online platforms. The children of our employees and employees of our clients may apply for 140-150 scholarships each year granted by the Eurocash Foundation "We are fulfilling the dreams".

The future of Entrepreneurship is a special pillar that directly relates to our mission. We believe that if we want to succeed, we must support entrepreneurship both among our clients and employees. In 2018 we have made available an innovative e-commerce platform Eurocash.pl to thousands of entrepreneurs, which on the one hand facilitates their daily functioning in business, on the other hand enables them to develop through innovative functionalities. In addition, we have been developing the offer of the Eurocash Skills Academy, one of the largest private business schools in Poland. We also launched the second edition of the post-graduate program "Business management in retail" at the Warsaw School of Economics. We have undertaken large-scale activities supporting succession in business. We promoted good business practices through the Equality Ranking in Business. And the Local Heroes - 100 entrepreneurs' initiatives for the 100th anniversary of independence - plebiscite brought us great satisfaction, thanks to which we could finance initiatives initiated by entrepreneurs within their local communities.

In subsequent years, we intend to continue to strengthen various aspects of responsibility in our activities. The CSR Strategy prepared in 2018 sets important goals for the Group thanks to which, we are able to achieve sustainable development, having a positive impact on the environment in which we work, safety and quality of food which we distribute, good working environment and, above all, the development of entrepreneurship in Poland.

Yours faithfully,

Katarzyna Kopaczewska –
Board Member

The Eurocash Group is the largest Polish company dealing in wholesale distribution of food products and marketing support for independent Polish entrepreneurs conducting retail operations. The franchise and partner networks supported by Eurocash associate over 15,000 independent stores operating under such brands as abc, Groszek, Delikatesy Centrum, Lewiatan, Euro Sklep or Gama.

Through a range of distribution formats, the Eurocash Group focuses its business activities on the wholesale distribution to customers across all significant wholesale market segments, in particular, to small format stores throughout Poland such as traditional retail stores (small supermarkets and grocery stores), convenience stores at petrol stations, restaurants, hotels and cafeterias.

***Chart 1** Eurocash Group Structure*

EUROCASH GROUP			
WHOLESALE	RETAIL	PROJECTS	OTHERS
CASH&CARRY	DELIKATESY CENTRUM	DUŻY BEN	
TOBACCO	INMEDIO	KONTIGO	
ALCOHOL		ABC NA KOŁACH	
FOOD SERVICE		OTHERS	
DISTRIBUTION			

abc	Lewiatan	RETAIL PARTNER CHAINS ORGANIZED BY THE WHOLESALE SEGMENT
Gama	Groszek	
Euro Sklep	Koliber Chemists	

Source: Own study

Below we present current split for the following segments and formats:

Wholesale – wholesale distribution formats:

- **Eurocash Distribution** consisting of:
  - active distribution companies (Eurocash S.A. after merger with Tradis Sp. z o.o., DEF Sp. z o.o., AMBRA Sp. z o.o.);
  - companies organizing or supporting franchise chains of retail shops: Euro Sklep S.A., Lewiatan Holding S.A., Lewiatan Podlasie Sp. z o.o., Lewiatan Śląsk Sp. z o.o., Lewiatan Zachód Sp. z o.o., Lewiatan Północ Sp. z o.o., Lewiatan Opole Sp. z o.o., Lewiatan Wielkopolska Sp. z o.o., Lewiatan Podkarpacie Sp. z o.o., Lewiatan Kujawy Sp. z o.o., Lewiatan Orbita Sp. z o.o.;
  - Detal Podlasie Sp. z o.o. (company operating retail stores in Lewiatan chain).

- **Cash&Carry** – a national network of discount Cash & Carry type warehouses under the "Eurocash Cash & Carry" brand, as part of which the loyalty program for the "abc" network of stores operates;
- **Tobacco & Impulse** – active distribution of tobacco products and fast moving consumer goods through Eurocash Serwis;
- **Alcohol Distribution** – wholesale and retail distribution of alcoholic beverages throughout Poland;
- **Eurocash Food Service** – supplies for restaurant chains, hotels and independent food outlets;
- **Other** - sales revenue of PayUp Polska S.A., Cerville Investments Sp. z o.o.

Retail – retail sales of Eurocash Group and wholesale sales of Eurocash to Delikatesy Centrum franchisees:

- **Delikatesy Centrum franchise stores** – a franchise system for retail stores operating under the brand "Delikatesy Centrum";
- **Delikatesy Centrum own retail stores** – own retail stores operating by companies that Eurocash hold 50% of shares: Firma Rogala Sp. z o.o., FHC-2 Sp. z o.o., Madas Sp. z o.o.;
- **EKO** – own retail stores under brand Delikatesy Centrum and EKO operated by EKO Holding S.A.;
- **Mila** – own retail stores under brand Mila operated by Mila S.A.;
- **Inmedio** – press retail kiosks under Inmedio brand.

Projects – sales revenue of new projects running by Eurocash S.A. and its subsidiaries: Eurocash Convenience Sp. z o.o., Kontigo Sp. z o.o., Eurocash Detal Sp. z o.o., ABC na kołach Sp. z o.o., Duży Ben Sp. z o.o., Sushi 2Go Sp. z o.o., 4Vapers Sp. z o.o. and sales of fresh product distribution to Delikatesy Centrum stores realized by Eurocash. S.A.

Others – sales revenue and costs of other companies through Eurocash Trade 1 Sp. z o.o., Eurocash Trade 2 Sp. z o.o., Eurocash VC3 Sp. z o.o. and Central Head Office costs consolidation not related to any of above segment.

Table 1 *Eurocash Group: Highlights of financial data*

PLN m	2018	2017
Sales revenues (traded goods, materials)	22 832,89	20 849,46
Remuneration (including social security and other benefits)	1 217,54	1 023,01
Gross profit on sales	155,55	20,31
EBITDA	373,86	360,71
Net profit*	66,90	84,84

*Excluding the impact of one-off events such as: costs of potential VAT liabilities in 2017 and revenues from the sale of 100% shares in PayUp Polska S.A., provision for restructuring costs and costs of the Mila process

The head office of the Eurocash Group is located in Komorniki near Poznań. The Eurocash Group operates only in Poland, which in terms of economic conditions and business risk can be considered as a homogeneous area.

1.1 NUMBER OF OUTLETS

As at 31 December 2018, the Eurocash Group's wholesale trade network comprised 180 Cash&Carry warehouses, under which a network of „abc" partner stores was organized, which included 8 708 local grocery stores. In franchise and partner networks cooperating with Eurocash Dystrybucja, there were 5,024 stores associated.

The retail network included **1,539 small supermarkets, including 1,328 operating under the Delikatesy Centrum brand** and 448 Inmedio press salons. The table below presents information on the number of Cash & Carry wholesalers, the number of small supermarkets, including Delikatesy Centrum, „abc" chain stores , Inmedio stores and stores associated under Eurocash Dystrybucja.

Table 2 *Number of Cash & Carry Warehouses, small supermarkets including Delikatesy Centrum stores, 'abc' network, Inmedio newsagents and franchise stores*

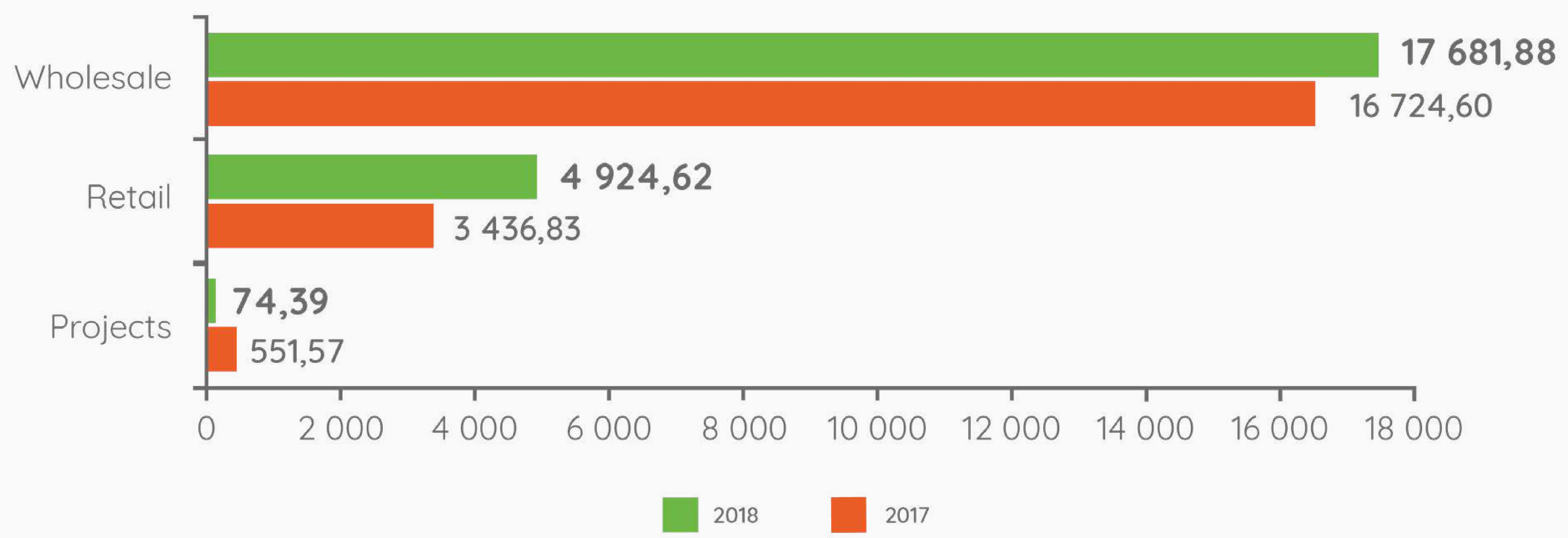
	As at 31st December 2018	As at 31st December 2017
Cash & Carry Warehouses	180	180
'abc' store network	8 708	8 531
Franchise and partner stores of Eurocash Distribution*	5 024	4 905
Inmedio newsagents	448	452
Small Supermarkets	1 539	1 344
Incl. Delikatesy Centrum	1 328	1 171

*Groszek, Euro Sklep S.A., Lewiatan, PSD

1.2 THE SIZE AND STRUCTURE OF SALES

The sales structure divided into individual sales segments (PLN m) for 2017 and 2018 are presented in the chart below.

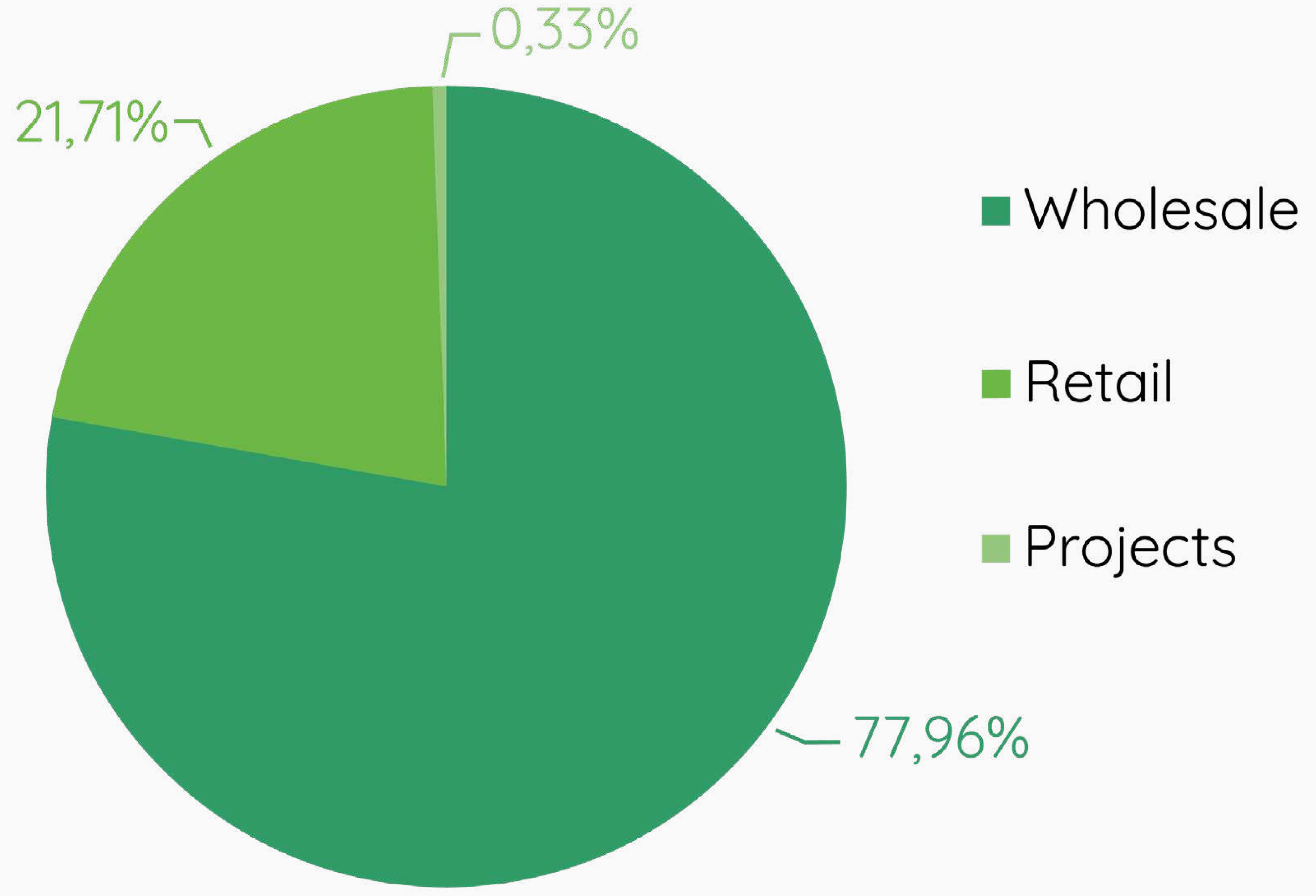
Chart 2 *Eurocash Group: Sales in 2018 according to the segments (PLN m)*



Source: own study
* Data are presented according to the new division, in force since 2019. The Fresh project is now presented in the Retail segment.

Below we present the distribution of sales revenues for 2018, split on two new business segments.

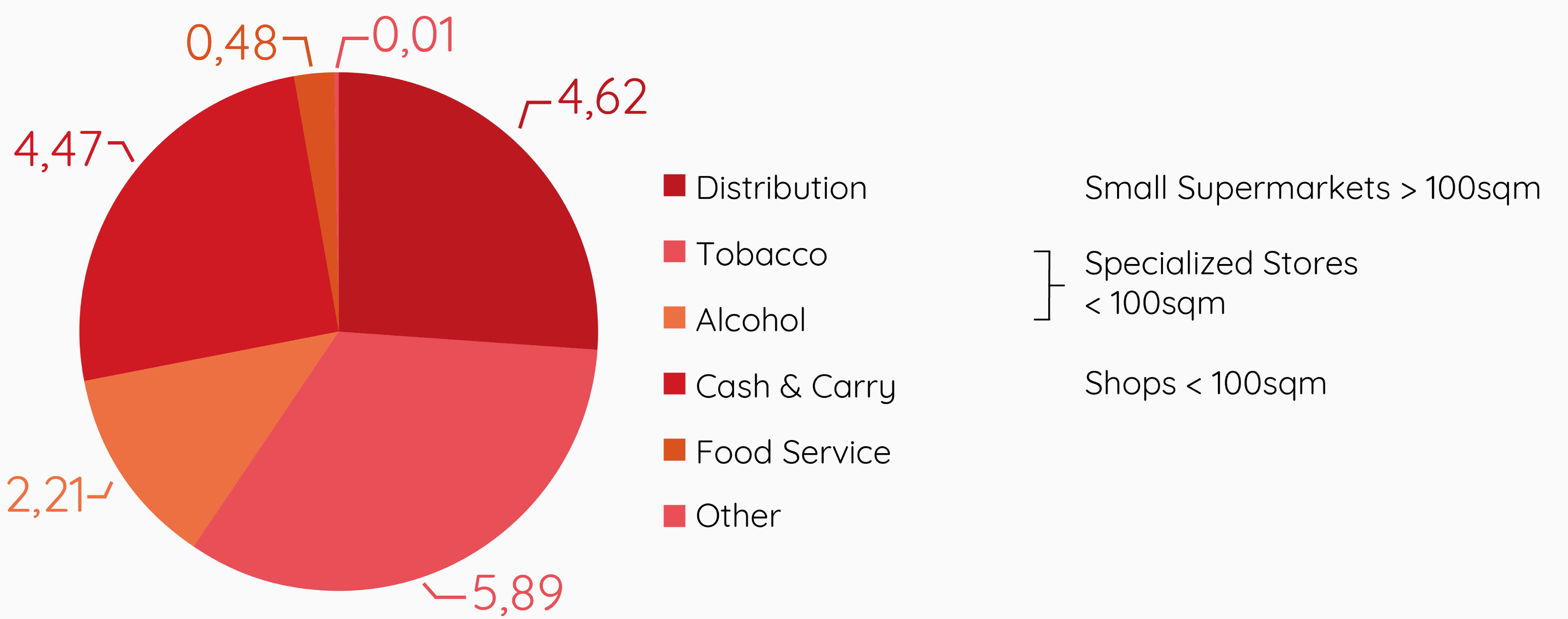
Chart 3 *Eurocash Group: Presentation of the Group's segments by retail and wholesale segments (PLN bn)*



Source: own study
* Data are presented according to the new division, in force since 2019. The Fresh project is now presented in the Retail segment.

The retail segment accounted for around 22% in the Eurocash Group, while the wholesale segment was responsible for 78% of Eurocash Group's sales revenues.

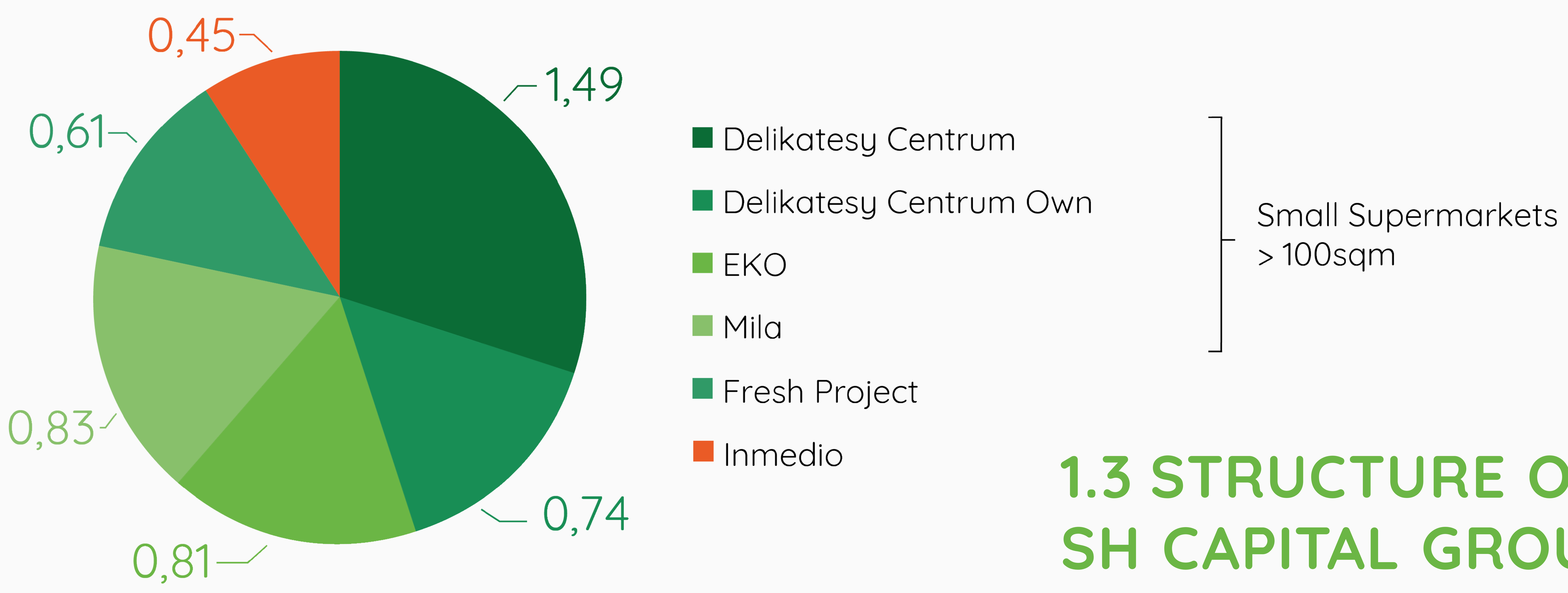
Chart 4 *Eurocash Group: Sales of the wholesale segment by individual segments (PLN bn)*



Source: own study

The largest share in the wholesale segment sales is generated by Tobacco – 33%, followed by Distribution – 26% and Cash & Carry –25% of the wholesale segment's sales. The sales of Alcohol segment amounted for 13% of sales.

__Chart 5__ Eurocash Group: Sales of the retail segment by individual segments (PLN bn)



Source: own study

The Retail Segment consists mainly of wholesale sales to Delikatesy Centrum, which amounts to approx. 58% including sales of the Fresh Project (distribution of fresh products such as fruits, vegetables, meat and cold cuts). Delikatesy Centrum own stores run by companies in which Eurocash holds a 50% share (Rogala, FHC-2, Madas) constitute 17% of sales revenue, while stores run by EKO Holding (both Delikatesy Centrum and EKO stores) account for 19% of sales. The retail segment also includes the sale of Inmedio newsagents, whose share in the segment's revenue is 10%.

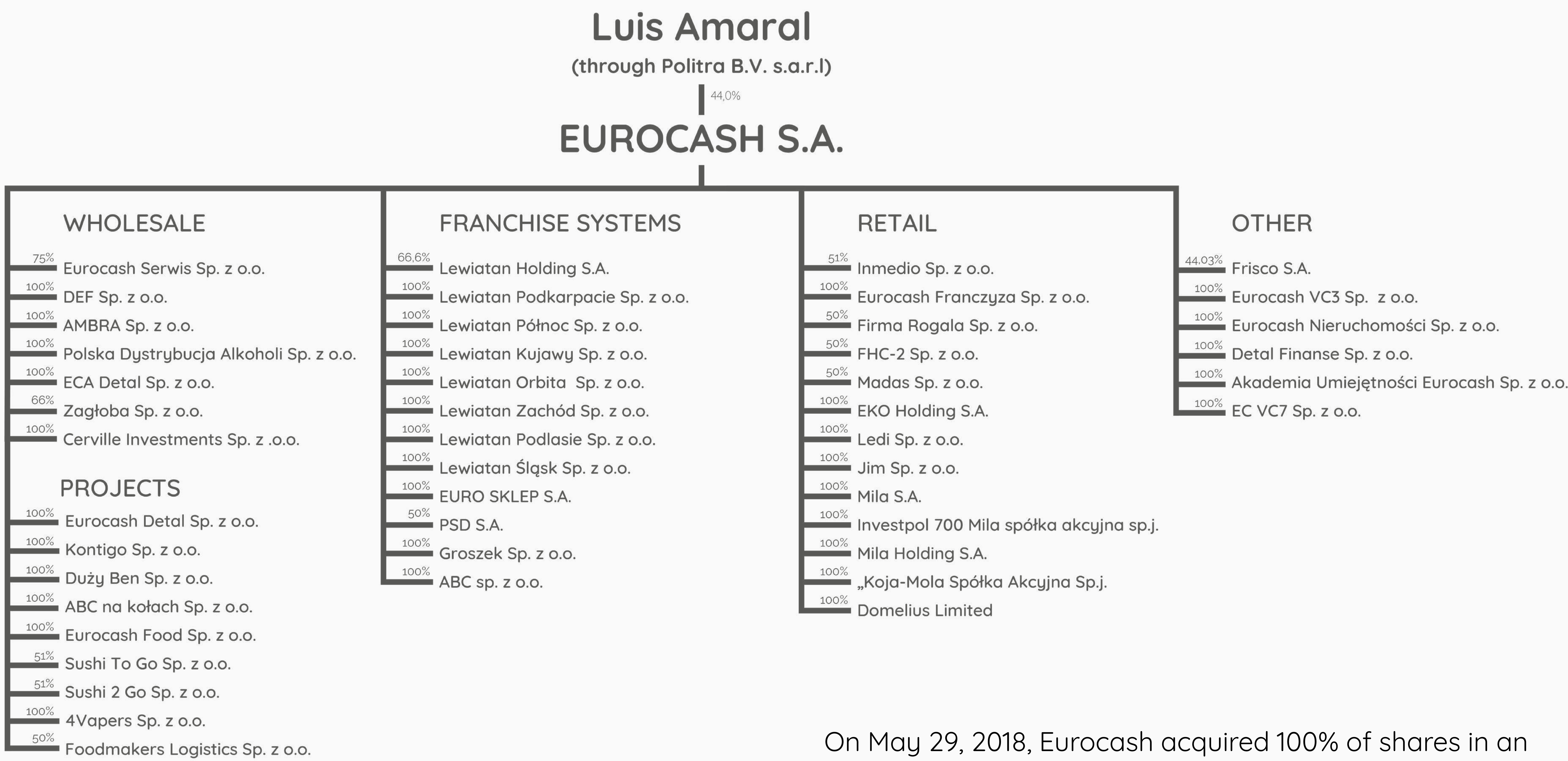
1.3 STRUCTURE OF THE EUROCASH CAPITAL GROUP

Luis Amaral is the main shareholder of Eurocash (directly and indirectly through Politra B.V. s.a.r.l.), with the shareholding of 44.04% as at 31.12.2018. Luis Amaral serves as President of the Management Board. The parent company in the Group is Eurocash S.A., which realizes the majority of the Group's sales.

As at 31 December 2018, Azvalor Asset Management S.G.I.I.C. S.A. together with the direct and indirect subsidiaries, held a total of 13,605,690 shares constituting 9.78% of the share capital of EUROCASH S.A. These shares entitled to 13,014,591 votes constituting 9,35% of the share in the total number of votes at the General Meeting of Eurocash S.A.

The structure of the Eurocash Group and its affiliated companies as at 31st December 2018 is presented on the next page.

Chart 6 *The structure of the Eurocash Group and its affiliated companies as at December 31 2018*



On May 29, 2018, Eurocash acquired 100% of shares in an entity controlling Mila S.A. - a company running a chain of Mila stores.

On December 19, 2018, the Eurocash Group concluded a promissory agreement regarding the sale of 100% of shares in PayUp Polska S.A..

1.4 MANAGEMENT BOARD

The Company's management body is the Management Board. The Management Board of the Parent is composed of seven members. The composition of the Management Board at the end of 2018 is presented below.

Table 3 *The composition of the Management Board at the end of 2018*

Name	Position
Luis Manuel Conceicao do Amaral	President of the Management Board
Rui Amaral	Member of the Management Board - CEO
Arnaldo Guerreiro	Member of the Management Board
Pedro Martinho	Member of the Management Board
Katarzyna Kopaczewska	Member of the Management Board – HR Director
Jacek Owczarek	Member of the Management Board – Financial Director
Przemysław Ciaś	Member of the Management Board

The Management Board manages the Company's affairs and represents the Company. Two members of the Management Board acting jointly or one member of the Management Board acting jointly with a holder of a commercial power of attorney may submit statements of will and sign documents on behalf of the Company.

The work of the Management Board is headed by the President of the Management Board. All members of the Management Board are obliged and entitled to jointly manage the Company's affairs, in particular in scope of determine and implement development strategies and main objectives, define the organizational structure and determine the principles of HR and remuneration policies.

In the remaining scope, respective Management Board members are responsible for independent management of Company affairs resulting from an internal allocation of duties and functions determined by the decision of the Management Board.

The Management Board may adopt resolutions at the Management Board meeting or outside the Management Board meeting in writing or as facilitated by remote communication tools. Resolutions of the Management Board are adopted by a simple majority of votes cast by Management Board members. Minutes of the resolutions are taken. Proper notification of the meeting to all Management Board members is required for the validity of the Management Board resolutions.

1.5 SUPERVISORY BOARD

The Supervisory Board is composed of 5 members, whereby the right to appoint and recall 3 members of the Supervisory Board is held by Politra B.V.S.a.r.l. (or its legal successor), while 2 members of the Supervisory Board are appointed and recalled by the General Shareholders' Meeting. The Supervisory Board member may be recalled only when the action is accompanied by a simultaneous appointment of the new Supervisory Board member.

The composition of the Supervisory Board in the period January 1st – December 31st 2018 was as presented in the table below.

Table 4 *The composition of the Supervisory Board in 2018*

Name	Position
João Borges de Assuncao	Chairman of the Supervisory Board
Francisco José Valente Hipólito dos Santos	Member of the Supervisory Board
Hans Joachim Körber	Member of the Supervisory Board
Jacek Szwajcowski	Member of the Supervisory Board
Alicja Kornasiewicz	Member of the Supervisory Board

The status of independent Supervisory Board members is held by the following persons:

- Mr. Jacek Szwajcowski and Hans Joachim Körber as Supervisory Board members, appointed by the Company's General Shareholders' Meeting, and
- Mr. João Borges de Assunção and Ms. Alicja Kornasiewicz appointed by Politra B.V. S.a.r.l, who submitted representations which meet criteria of an independent Supervisory Board member.

Thus, 4 of the 5 Supervisory Board members of the Company are "independent members".

The Board selects its President from amongst its members. The Supervisory Board may also recall the President of the Board from his function. The Supervisory Board exercises an on-going supervision of Company operations in all areas.

1.6 EUROCASH GROUP STRATEGY

The Management Board of Eurocash Group, through its activities, aims to sustainably develop the operations of the Group and its clients. The superior objective of Eurocash Group is to ensure competitiveness of independent retail stores in Poland, offering added value to the Group's clients and increasing the value of the Group for its shareholders.

The Group implement its strategy by:

- meeting the customers' needs by supplying various distribution formats and forms of cooperation, and by providing the customers with the expected level of quality and service
- creating sustainable competitive advantage of the Group using the economies of scale
- systematic cost optimization and operations integration in all business units within the Group

In response to the ongoing consolidation process on the food distribution market in Poland, including the wholesale distribution of FMCG products in Poland, the Eurocash Group strategy also assumes further organic growth in each distribution format and continuation of acquisitions of other wholesalers, franchise networks and retail chains. Takeovers of other entities allow for relatively quick economies of scale, which translates into the ability to offer Group's clients (independent retail trade) better terms of goods purchase, which should also contribute to improving the competitiveness and market position of the Group.

In line with the updated strategy for 2023, the Eurocash Group intends to create the largest supermarket chain in Poland based on its own and franchise stores.

The source of the expansion the assumption of which is the establishment of a chain of stores with 2400 branches, will be the development of the network in the franchise model, supported by subsequent acquisitions of local chains and the construction of stores from the scratch (together with partners from the real estate sector). In this way, entrepreneurs from all over Poland will have access to a recognizable retail brand and marketing tools at the cost level comparable to the large-scale stores chain.

The mission of the Eurocash Group is to improve the competitiveness of retail stores run by independent entrepreneurs in Poland. Experiences developed in own stores will ultimately be transferred to franchisees. One of the tools made available to all Eurocash Group clients so far is the Eurocash Academy - an educational platform that gives independent entrepreneurs knowledge to which employees of competing large area networks do not have access. Another solution developed today on the basis of the Delikatesy Centrum network is the fresh products distribution platform, which is first made available to franchisees and partners associated in networks cooperating with Eurocash Distribution. Next, a Customer Relationship Management System based on the mechanisms developed at Delikatesy Centrum (Delikarta) will be made available. Ultimately, the customers of Eurocash Group will be able to take advantage of the online store solutions created on the basis of Frisco.pl experience.

As part of its wholesale activities, the Eurocash Group will focus on the integration of individual business units, sharing the best solutions developed by each of the formats and implementing group synergies. A healthy, reorganized wholesale business that generates strong cash flows from operating activities will be the main source of financing for the expansion of the retail segment. Further development of wholesale activities should be supported by the eurocash.pl platform, which gives the owners of independent retail stores the opportunity to indirectly reduce costs and, above all, better address the needs of consumers.

In order to preserve the competitiveness of independent stores trade in Poland, the Eurocash Group continues to invest in innovative projects: Duży Ben, abc on wheels, Kontigo, distribution of high quality fresh products and others. After successful projects in the previous years: Faktoria Win and PayUp, the Company decided to develop the concept of Big Ben and make it available to franchisees and distribution of high quality fresh products to Eurocash Dystrybucja clients.

Eurocash Group goal

The goal of the Eurocash Group is to become the leading distributor of food and other FMCG products in Poland. By combining know-how with the entrepreneurship of customers and employees, the Group wants to maximize market share in the distribution of products of everyday needs for consumers in Poland.

1.7 CORPORATE SOCIAL RESPONSIBILITY STRATEGY

The main areas of Eurocash's business activity in which the idea of Corporate Social Responsibility are implemented are: the natural environment, products that Eurocash sells, the working environment and relations with franchisees and local communities.

PILLAR 1: EUROCASH' IMPACT ON THE ENVIRONMENT

Eurocash as a large company that operates in many facilities and which important area of activity is transport has a direct impact on the natural environment through pollution into the atmosphere, waste production and energy consumption. Therefore, we feel a special responsibility for the reduction of our potential impact on the environment and we try to reduce carbon dioxide emissions, the amount of packaging and food waste as well as electricity consumption.

PILLAR 2: FOOD SAFETY AND QUALITY

Food trade brings big challenges at various stages of the logistics chain. The growing emphasis we place on the sale of fresh products makes it necessary to constantly increase the level of quality control of products that we accept from producers and supply to stores cooperating with us, as well as raising safety standards and maintaining food quality in storage and transport.

PILLAR 3: GOOD WORKING ENVIRONMENT

We believe that the foundation of sustainable development is the creation of an appropriate - motivating and friendly - work environment for all our employees. We are aware of the varied expectations and requirements of employees, depending on the type of work we do. We strive to provide employees with physical work primarily with safety in the workplace. In the group of office workers and managerial staff, we focus on the development of professional skills. With regard to all employees, we place emphasis on health, good contact with superiors and a high work ethic.

At the foundation of Eurocash's success lies the belief in the strength of Polish entrepreneurship. At the same time, we are aware of the many challenges facing our franchisees in the face of strong competition from large chains. Therefore, in order to build a common future with them, we try to support them in various ways in the development of their entrepreneurship - by expanding their knowledge, introducing innovative solutions to better develop business or succession program. At the same time, it is important for us that local communities in which our franchisees operate should have noticed and appreciated their role and importance for the city or region. We believe that supporting Polish entrepreneurship will allow us not only to survive, but also to attract a new generation of entrepreneurs to retail.

1.8 EUROCASH GROUP VALUES

The values, principles, standards and norms of the organization's conduct have been collected in codes of conduct and ethical codes. Below we present the 8 main values of the Eurocash Group:

Responsibility

Each of us has precisely set business objectives, and is responsible for achieving them. Through effective use of all means available, we aim at meeting the challenges. Therefore, we all contribute to the Group growth and to the increase of its generated profit.

Accountability

We believe we are masters of our destiny; the challenges we face are only an opportunity to test ourselves and to apply new solutions and make improvements. We believe in the 360 philosophy, where each of us is assessed both by our superiors and by peers, subordinates, and internal clients.

Teamwork

In such a complex and dynamically growing organization as Eurocash Group, results may be achieved only though effective cooperation, ability to adjust to the changing environment, and strong motivation of all employees. Dynamic action, creativity and the synergies of teamwork help us achieve goals that bring satisfaction to both the whole company and the individual employee.

Profit sharing

When Eurocash Group achieves the goals set, employees also have their share in the profit. Each of us is evaluated on the basis of our achievements – those with best results are rewarded higher than others. Courage in decision making, flexibility, effectiveness-increasing attitude and undertaking ambitious challenges are all highly valued.

Transparency

In Eurocash Group we follow high ethical standards whenever dealing with employees, customers and suppliers. Each of us shall act in accordance with the law and fair practices, and respect all entities and persons with whom we do business. We comply with the rules of corporate governance of public companies, and information on the company actions and results is fully available.

Client service attitude

We believe that only by meeting and exceeding our clients' expectations we may grow and generate profit. Eurocash Group priority is and always will be to fulfil our clients' needs and to introduce solutions enhancing their competitiveness, owing to which our clients can reinforce their market position and increase their profitability.

Work enjoyment

In Eurocash Group we care about being an attractive employer. We achieve that by justly rewarding achieved results. It is also very important, that our employees gain satisfaction and pleasure from overcoming challenges set before them. The work environment in Eurocash Group in informal, enabling development and gaining experience in an exciting environment, full of passion and energy.

Entrepreneurial spirit

Entrepreneurship is in our DNA. We believe that in each of us there is a soul of an entrepreneur and, when properly motivated, it allows us to reach the impossible.

We actively analyze our environment to identify the opportunities for developing our customers and our businesses. We innovate and consciously chose to take risk, believing that it would allow us to be the number one.

1.9 MEMBERSHIP IN ASSOCIATIONS

Eurocash participates in numerous associations in which, through cooperation and exchange of experience, it contributes to achieving the set goals. These organizations include, among others:

- United Nations Global Compact
- Partnership „Together for the environment" UNEP
- Polish Chamber of Commerce
- Polish Organization of Franchisors
- Polish Business Council
- Employers of the Republic of Poland

1.10 GROUP'S STAKEHOLDERS

Group's stakeholders can be divided into two groups in terms of materiality: crucial and others.

Table 5 Stakeholders of the Eurocash Group

Crucial	Others
Clients Warehouse agents Franchisees and owners of independent stores Consumers **Employees** **Suppliers and subcontractors of** Products Services (transport, cleaning, etc.) **Shareholders**	Local communities and non-governmental organizations Natural environment Property owners Other contractors Competition Other EC companies Financial institutions Education sector: universities and industry schools Industry and consumer organizations Certifying organizations Media Public administration and environmental protection institutions

Table 6 Communication with stakeholders

Method of communication with crucial stakeholders:

Customers

- customer service offices, participation in the Eurocash Academy, own and industry publications, information systems to handle orders, special events, website, research, CSR reports

Employees

- employee portal, social workplace portal, posters, information boards, meetings, newsletter, opinion survey

Suppliers and subcontractors

- daily cooperation, meetings, conferences, newsletters, audits, website, CSR report

Shareholders

- special section on the website, financial and non-financial reports, press releases and conferences, investor relations department

The Group's stakeholders were identified based on their impact on the Company and the impact of the Group on the situation of stakeholders.

The most common form of contact between stakeholders is by telephone and via electronic means of communication.

1.11 RISK MANAGEMENT SYSTEM

The Eurocash Group runs a risk management system that covers all aspects of the operations of the entities comprising it. The system focuses both on internal and external areas, taking into account, among other things, the impact of the Group's activities in relation to social, employment, environmental issues, respect for human rights and counteracting corruption.

The Group's risk management is based on a series of internal procedures and policies, as well as on complementary and systematically performed internal control tasks through dedicated resources. In addition, the Eurocash Group has an Internal Audit function which, through its tasks, plays a consultative role in the field of quality and efficiency of the above mentioned audits.

Below are the most important elements of the risk management system related to the broadly understood social and natural environment, along with an indication of the chapter of this report, which contains a detailed description of all activities mitigating these risks.

Table 7 *Risk management system*

Risk area	Risk examples	Elements of the risk management system - methods of monitoring and controlling	Reference to the report chapter
Ethics and counteracting corruption	• Risk of corruption in relations with contractors • Risk of fraud against employees • Risk of fraud against contractors	• Eurocash Group's Code of Ethics • Eurocash Group values - clearly defined and communicated to employees • Line of trust for employees to anonymously report cases of	Chapter III.8 ETHICS Chapter III.7 EMPLOYEES' RIGHTS

		corruption, abuse and breaches of the Code of Ethics • Anti-mobbing policy • Training for employees on Eurocash Group values and ethics rules • Instructions for accepting gifts from contractors (giving gifts for charity)	
Human resources/ workplace	• Risk of losing employees • Risk of non-compliance with labor law by employees • Risk of low employee involvement • Risk of mobbing and other abuses towards employees • Risk of unfair assessment of employees' professional development • Risk of lack of professional development opportunities for employees	• Procedures and instructions regulating the workplace, including work regulations, remuneration and employee bonuses regulations • Activities and agreements with trade unions • Established and uniform rules for the use of the Social Benefits Fund • Ensuring compliance with labor law by training for management and continuous monitoring of working time records • Procedures and instructions for hiring new employees • Benefits system for employees (private medical	Chapter III. GOOD WORKING ENVIRONMENT FOR OUR EMPLOYEES

	• Risk of low employee satisfaction with work	care, co-financing for sports activities) • Co-financing of education for employees • Cyclical survey of employees' opinions • Eurocash Group values - clearly defined and communicated to employees • Line of trust for employees to anonymously report cases of corruption, abuse and breaches of the Code of Ethics • Work results management system • Annual employee development assessments • Talent development programs (Management Trainee and Sales & Operational Trainee) • E-learning platform with numerous employee trainings • External training according to the needs of given roles / functions / departments • Anti-mobbing policy

		• Activity in social media	
Employees' health and safety	• Risk of accidents at work • Risk of fire and other accidents that may endanger the life and health of employees • The risk of access to unauthorized facilities that may endanger the safety of employees • Risk of assault on employees in the field and branches • Risk of occupational diseases (work at the computer, work in a warehouse, etc.)	• Internal health and safety procedures and instructions • Systematic checks on compliance with health and safety procedures and instructions • Health and safety training or employees • Systematic training on emergency actions (e.g. trial evacuations in case of fires, etc.) • Devices and means ensuring safety in crisis situations (fire, evacuation, etc.) • Providing AED (defibrillator) devices in the Group's facilities with a large number of employees • Protection against access by third parties and protection of objects • Ensuring the physical protection of employees and facilities • Systematic training in first aid	Chapter III.2 Occupational Health and Safety

		• A program to increase driving safety • Co-financing for sport activities and private medical care • Functioning of sports clubs enabling integration and recreation of employees	
Food Quality and Safety	• Risk of marketing food that is not tested, of dubious quality or does not meet legal standards • The risk of food being placed on the market after the expiration date • Risk of breaking the cold chain for fresh products • Risk of inadequate storage and transport of food products • Risk of inadequate disposal of overdue, defective or damaged products • Risk of non-compliance	• The implemented HACCP food safety program • IFS, BRC, ISO 22000 certifications and audits conducted by external entities in relation to the EC Group • Internal analysis and quality audits in distribution centers and branches • A dedicated team of food quality controllers covering geographically all regions of activity • OWDP (General Terms of Supply of Products) regulating cooperation with suppliers in the field of quality and food transport	Chapter II. FOOD QUALITY AND SAFETY

	with sanitary requirements	• In the case of own brand products - systematic audits at manufacturers' factories • Complaint process regarding both returns from customers and suppliers	
Social and business enviornment	• Risk of stopping the development of entrepreneurship • Risk of stopping the development of local communities due to the lack of local entrepreneurship development • Risk of cessation of activity by local entrepreneurs (due to, for example, strong competition) • Risk of failure to comply with legal provisions • Risk of unauthorized/ unlawful disclosure of personal information • Risk of selling alcohol	• Entrepreneurship Academy (training, post-graduate studies for clients and franchisees, etc.) • Innovative business tools - eurocash.pl platform • Offering various business cooperation solutions (several franchise networks, new concepts of retail stores, etc.) • Applying good business practices • Support for equal treatment of entrepreneurs by producers ("Equals in business") • Satisfaction surveys of clients/entrepreneurs from cooperation with the Eurocash Group	Chapter IV. THE FUTURE OF ENTREPRENEURSHIP AND ITS INFLUENCE ON LOCAL COMMUNITIES

for resale to recipients without valid alcohol concessions • Risk of cooperation with counterparties unreliable in the tax context • Risk of unfair business practices applied by the Group's employees	• Dedicated Compliance function in the EC Group (compliance with legal regulations) • Dedicated function to meet the requirements of GDPR - a separate team, procedures and instructions (in accordance with the requirements of the Act) • On-going and systematic monitoring of legal regulations and adaptation of activities to their requirements • Continuous monitoring and verification of the possession of valid alcohol licenses at recipients to whom such goods are sold for resale • The ban on trading on non-commercial Sundays • Verification of contractors' credibility • Cooperation regulated by contracts with producers and suppliers • Cooperation with the Large

		3+Family Union ● Employees' participation in charitable initiatives, e.g. charitable events, collections and actions for those in need	
Natural environment	● Risk of contamination or poisoning of the environment ● Risk of excessive CO2 emissions ● Risk of uncontrolled energy consumption in buildings and the transport fleet ● Risk of generating waste unfavorable to the environment ● Risk of a significant amount of waste (e.g. damage, food processing) ● Risk of improper waste and secondary raw materials segregation	● Energy efficiency audits ● Introduction of a fleet of hybrid cars ● Introduction of the eco-driving program ● Monitoring fuel consumption, driving style and emissions ● Continuous improvement of the efficiency of the logistics chain ● Continuous optimization of loss management in logistics ● Cooperation with food banks ● Waste segregation and management of recyclable materials	Chapter I. EUROCASH' IMPACT ON ENVIRONMENT

For many years, the Eurocash Group has been reporting issues related to social responsibility on an annual basis. This report applies to the period from January 1, 2018 to December 31, 2018. The previous report was published on March 22, 2018.

The methodology of this year's report is based on own standard, referring qualitatively to the standard adopted last year, which allows to standardize information and select indicators suitable for Eurocash Group operations.

As part of the adopted CSR strategy of the Group, the following important aspects have been identified:

Table 8 *Important aspects of the Eurocash Group CSR reporting*

Reporting aspect		The impact of the aspect within the organization	The impact of the aspect outside the organization
Place of work	• employment conditions • security • ethics and company • values equal opportunities in the workplace	+	-
Environment	• energy consumption • uel consumption and emissions from transport • waste management	+	+
Food quality and safety	• care for the quality and safety of products and packaging • criteria for selecting suppliers and tools for their verification	+	+
Market	• ensuring competitiveness of independent retail stores in Poland • response to clients' needs, including innovation in products targeted at them	+	+

In most cases, the identified aspects have a bilateral impact, inside and outside the Group, and differ in the degree and nature of impacts and the importance for individual stakeholders.

In connection with the acquisition of the Mila Group on 29 May 2018 and the integration of the companies acquired at the turn of 2016 and 2017, i.e. FHC-2 and Madas, Polska Dystrybucja Alkoholi and EKO Holding, data on the employment structure and the number of accidents for 2017 were presented again with taking into account the above-mentioned units.

If you have any questions regarding this report, please Group Marketing.

The Eurocash Group adheres to the precautionary principle 15 of the Rio de Janeiro Declaration on Environment and Development through risk management at every planning stage. Below we present the most important activities of the Group in this respect.

Environmental Policy

Eurocash, as the wholesale distribution leader for FMCG products for the polish market, taking into account the respect for the natural environment, conducts its business, aiming to minimize its influence on the environment.

Awareness of the importance of ecological topics, in relation to the future development of the company, causes the company's function to adhere to current rules and standards for environmental protection and other local conditions, and taking into account environmental aspects. In order to improve the effects of environmental activity, the following targets have been set:

- Adhering to any legal requirements and regulations in the area of environmental protection and influence, which apply to the activity being conducted
- Systematic raising of ecological awareness among the employees and outside the company, with particular focus on separate collection of waste and recycling
- Preventing environmental pollution, including reducing the amount of waste and harmful emissions
- Rational usage of natural resources, including air, water, energy and fuel
- Perfecting technology and logistic processes in such a manner, that they are environment friendly and fulfill the needs and requirements of current and future contractors, as well as other parties
- Preventing emergencies
- Creating proecological activity among suppliers and clients

The abovementioned targets, are tied to Eurocash's economic activity. The Board commits itself to plan environmental protection activities, supplying means to carry out these activities, and to evaluate the effectiveness of the actions undertaken.

The Management and all employees of Eurocash Group are obligated identify themselves with the letter of the accepted Environmental Policy and to realize the targets it sets.

3.1 ENERGY CONSUMPTION AND CO^2 EMISSION

Electricity consumption in the Eurocash Group is one of the important aspects of environmental impact. As electricity in Poland is mainly produced from coal, this aspect is associated with the consumption of raw materials for its production and the emission of carbon dioxide during combustion.

In 2018, energy consumption in the Eurocash Group amounted to approximately 0.49 million GJ. The energy is mainly used in our distribution centers, offices and warehouses.

As a result of direct emission from the combustion of fuels in the buildings and cars of the Group, approx. 25,355 t CO2 was emitted. Combustion of fuel in transport (63%) and heating of buildings (37%) contribute to the emission.

3.2 ENERGY CONSUMPTION IN BUILDINGS

A) ENERGY EFFICIENCY AUDIT

Every five years, the Energy Efficiency Audit is conducted at the Eurocash Group, the last one took place in 2017. It included both buildings and transport. Within its framework, there were identified places where it is possible to increase the efficiency of processes in terms of energy consumption. His results will be used to plan activities in this area in the coming years.
Every five years, an energy efficiency audit is carried out at the Eurocash Group, the last one took place in 2017. It included both buildings and transport. Within its framework, there were identified places where it is possible to increase the efficiency of processes in terms of energy consumption. His results will be used to plan activities in this area in the coming years.

B) LED LIGHTING REPLACEMENT

In 2018, Eurocash Group continued the project of lighting replacement in Distribution Center and Cash & Carry wholesalers for modern lighting equipped with LED bulbs. The investment in the project, beside a beneficial influence on the natural environment, will also bring economical savings to the Group. As a result of modernization, savings in locations on energy consumption by lighting amounted the level of 60-75% depending on the type of previous lighting. The return period for the investment into lighting replacement for a Distribution Center is estimated at between 2,7 to 5,7 years

At the end of 2018, new LED lighting was already present in 15 of 16 Distribution Centers. At the same time, LED lighting was introduced to over 72% of the Cash & Carry warehouse.

C) ECOLOGICAL OFFICE BUILDING IN WARSAW

In order to limit the impact on the environment, the new Group office in Warsaw was located in a building with the BREEAM (BRE Environmental Assessment Method) certificate. This certificate assesses the building in terms of its environmental performance, especially energy consumption. The solutions in the new office building went further than the minimum requirements of the certificate, thanks to which it obtained a very good ecological grade.

3.3 ENERGY CONSUMPTION IN TRANSPORT

A) IMPLEMENTATION OF EFFECTIVE LOGISTIC SYSTEM

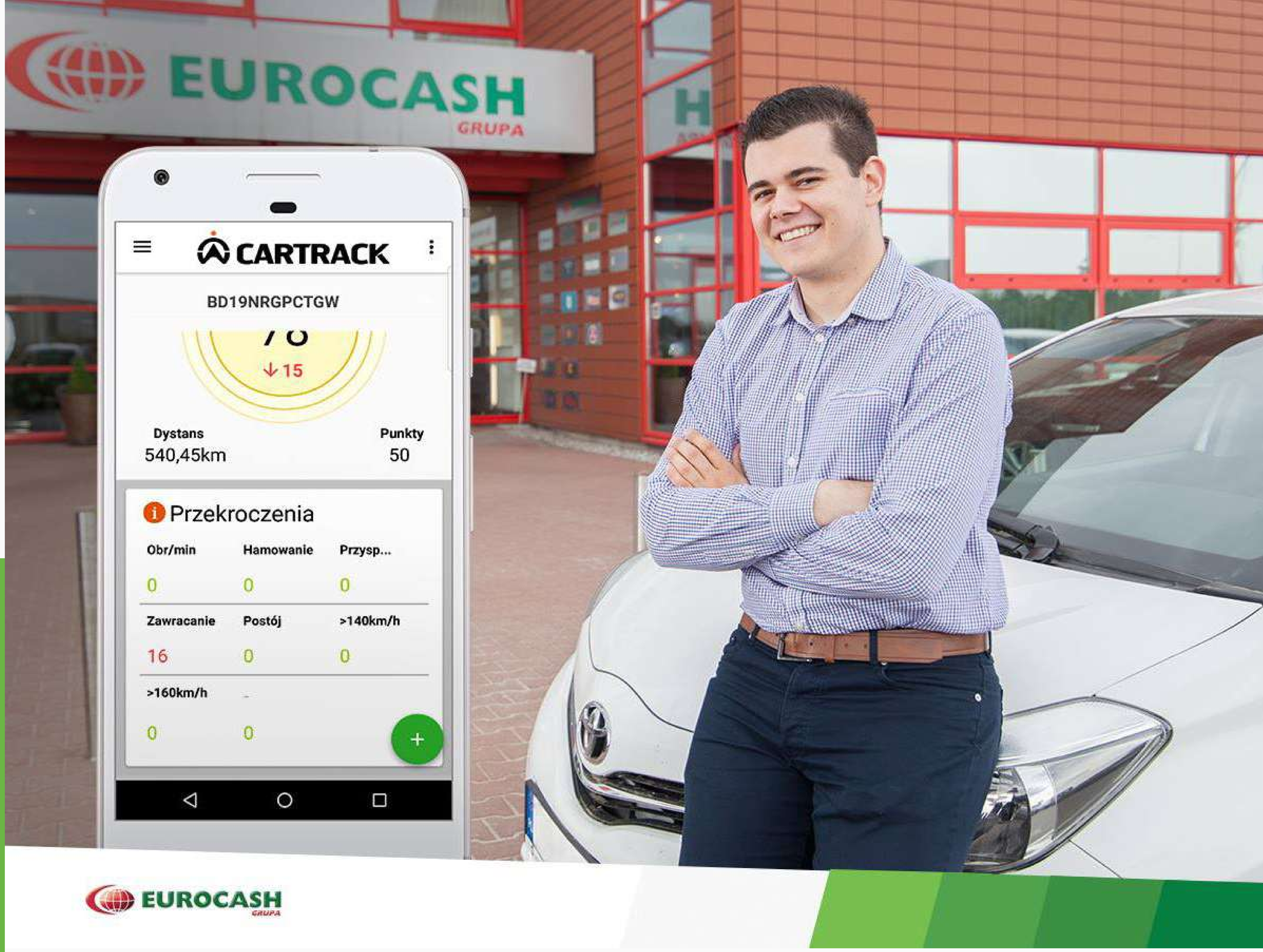
In our Group, we prepared and implemented a modern logistical system enabling rational usage of means of transport, which allowed the influence the traffic of trucks on the environment. Eurocash Group constantly monitors traffic routes, and sets new ones in a maximally optimal manner. The means of transport carry products to multiple destinations at once, which allows for optimization of routes. Thanks to that, a truck operated by an external company, sent to a destination does make the return trip without a load. A transport service company has the ability to optimally utilize trucks during the return trip, completing orders from other companies. This policy allows for a significant reduction of exhaust being emitted into the environment.

B) EXHAUST FUMES EMISSION MONITORING SYSTEM FOR EMPLOYEE CAR

Moreover, we constantly monitor the exhaust emitted during the activity of the Eurocash Group's employees, by setting fuel consumption limits for each personal vehicle, used for business activity. The Fleet Management Department, in case of significant deviations from set standards, takes actions aiming to identify and eliminate the problem, which contributes to increased fuel consumptions, and in relation to that, increased exhaust emission into the environment.

C) PROGRAM TO INCREASE SAFETY AND ECOLOGY OF DRIVING

The „Safety and Driving Ecology Improvement Program" was developed in 2017. Its task is to significantly reduce the emissions from cars in the Group and increase the safety of people traveling with them.



As part of the program, 11 Principles of Ecodriving in the Eurocash Group have been identified and prepared for implementation:

- Anticipate the traffic situation
- Brake the engine
- Drive in the highest gear possible and at the lowest possible speed
- Accelerate dynamically
- Do not warm up the engine when the vehicle is stationary
- Reduce air resistance
- Control the tire pressure
- Turn off unnecessary power receivers
- Take care of the car
- Avoid driving at short revs
- Plan trips and refueling

Their verification is controlled through a mobile application and driver rankings.

It is worth emphasizing that as a result of implementing the above-mentioned principles, we managed to reduce the amount of fuel burned for each kilometer driven which is a very important indicator from the point of view of the environment. The introduced practice has increased the number of kilometers traveled per 1 liter of fuel by over 10%.

D) FLEET OF HYBRID CARS

The problem of air pollution from car transport is becoming an increasing problem in Poland. Eurocash decided to contribute to reducing its emissions also by replacing conventional cars with hybrids. Vehicles with hybrid drive consume less fuel, emit less harmful substances and are quieter than classic cars with combustion engines.

At the end of 2018, the Eurocash Group fleet consisted of **545 Toyota Hybrid** cars compared to 400 in 2017. These cars have created the largest company fleets of vehicles with alternative drives in Poland. Cars were additionally equipped with this Toyota Safety Sense safety system, including an early response system in the event of PCS collision risk, automatic wipers or signaling of unintentional lowering of the lane.

545
HYBRID CARS

3.4 WASTE MANAGEMENT

From the stream of waste generated by Eurocash Group, in 2018, 10,326 tons were separately collected, including 6006 t of waste paper and 1497 t of foil. In total, 88% of generated waste was recovered, of which 23% were bio-waste. After returning to authorized treatment facilities, the organic content of the waste was used as a substrate for biogas plants or other biological transformation processes, and damaged packaging as an alternative fuel. The data presented concern waste generated as a result of the Group's main activities and does not take into account municipal waste generated by employees.

Table 9: *Waste generated in the Eurocash Group and how to handle it*

Type of waste	Material recovery [t]	Mechanical-biological processing [t]
Packaging made of paper and cardboard	5 689,18	0
Foods that are out-of-date or unhelpful	0	2 156,72
Plastic packaging	1 320,82	0
Other	134,169	0
Total	7 144,17 76,8%	2 156,72 23,2%

A) WAREHOUSE LOSSES OPTIMIZATION PROGRAM

In 2018, in some Delikatesy Centrum stores, after the acquisition of Eko Holding S.A., a new warehouse losses optimization program has been developed and implemented. The implemented process assumes among others the application of a new method of loss coding, weekly loss level reporting, appointment of a special loss group, which analyzes the current level of losses during weekly meetings and develops special recovery programs. The work process was also implemented with TOP 20 stores with the highest warehouse losses for which special repair plans are being developed.

In addition, the additional analysis is conducted for, among others, the quantity and quality of goods delivered to stores. The quality of orders is assessed as a way to help store managers create optimized orders. The stores also introduced a modified system of goods receipt and a complaint process. In warehouses, however, there is an improved model of pallet picking and shipment of goods to stores. All these activities contributed to a significant reduction of warehouse losses at the end of 2018.

B) COOPERATION WITH FOOD BANKS

In 2018, the Eurocash Group established permanent cooperation with Food Banks in order to provide them with terminating food. Thanks to this, a large part of the food from the Eurocash Group's facilities which has been utilized so far, has been used by those in need. In 2018, Eurocash Group saved 37.7 t of groceries worth 405 thousand zlotys in this way. This food provided as many as **75,358 meals for those in need.**

C) PROMOTION OF WASTE SEGREGATION

Our partner network Gama runs its own programs to increase ecological awareness, especially for children. Image Action „Gamuś Bawi i Edukuje" under the slogan „Pamiętajcie dzieci – segregujcie śmieci" ("Remember children - segregate waste") a new educational program - waste segregation. Learning to segregate waste by fun in the age range from kindergarten to first classes of primary school. The aim of the action is to familiarize children with the concept and the essence of waste segregation.

3.5 OTHER INITIATIVES

A) EKO-OFFICE

As part of the implementation of environmentally friendly solutions, the following actions have been implemented in the Eurocash Group offices:

- In order to reduce the amount of wasted paper and inks, a central printout system was introduced, which normally uses only black and white ink and double-sided printing;
- To recover raw materials in offices in Poznań and the surrounding area have been equipped with containers for used paper, and a new office in Warsaw in sorting conta-

iners for paper and plastics.

- In order to reduce emissions by car trips, delegates have implemented teleconferencing systems and promoted shared trips. Announcements concerning joint journeys can be placed in the special section of the employee portal and on the group on the workplace platform.

We are the largest Polish company in wholesale distribution of fast-moving consumer goods of food products, household chemicals, alcohol and tobacco products, cooperating with 1,809 producers. As a partner of such a large number of entities Group creates an important part of the supply chain of FMCG products throughout the country.

1 809
SUPPLIERS

Producers in cooperation with the Group benefits from the efficient distribution of their products through a network of the Group's customers, both in major cities and low-populated towns. Through this collaboration, the producers have may concentrate on the production process and brand awareness building, and at the same time avoid investment into own logistics system. Cost-effectiveness of Eurocash Group distribution is achieved through the use of logistics infrastructure to service many manufacturers at the same time regardless of the size of the order of selected by client products.

On the other hand, clients by cooperation with the Group benefit from economy of scale, negotiation position and marketing support what they could not achieve acting alone. Thanks to the various distribution formats, and also offer of a number well-developed franchise and partnership systems, the Group's customers have the opportunity to select a dedicated offer corresponding to the individual needs of consumers in their local market. Economy of scale of Eurocash Group at the end translates into possibility of usage a logistic system and the „know-how" by thousands stores and is at a comparable or even higher level than in the large-format retail chains.

Due to the still strong position of such a food distribution model, entrepreneurship in retail is relatively high in Poland compared to the European average, despite the declining number of stores in recent years. The entities running independent small-format stores, which share in the distribution of FMCG products in 2018 amounted to over 41%, are still very important.

4.1 CHARACTERISTICS OF THE SUPPLY CHAIN

The Eurocash Group focuses on the distribution of products which is carried out through the Logistics department, employing from 3,500 to 4,000 employees, depending on the season.
Distribution of products on a national scale requires cooperation with many suppliers, their number for 2017 and 2018 is shown in the table below.

Table 10: *The number of suppliers in the Eurocash Group*

	2018	2017
Number of suppliers	1 809	1 817

Each supplier of the Eurocash Group is obliged to fulfill the requirements contained in the document General Terms of Delivery of Products, which regulates, among others: features and documentation of products, principles of audits, determination of the purchase price, organization of deliveries, returns, documentation workflow, promotional activity, financial flows, penalties.

4.2 NEW FOOD SAFETY SYSTEM

In accordance with the current food safety policy, Eurocash S.A. executes deliveries that meet the requirements and expectations of clients, while maintaining the principles guaranteeing the safety of products, which in 2018 was confirmed by maintaining the certificates of quality standards:

- ISO 22000:2005 DEKRA Certification - all Eurocash S.A. locations. in the field of warehousing, distribution and wholesale of groceries.
- BRC Global Standard - Storage and Distribution Lloyd's Register (Polska) Sp. z o.o.- warehouse in Sosnowiec, warehouse in Plewiska, warehouse in Błonie
- IFS Logistics DEKRA Certification – warehouse in Sosnowiec, warehouse in Plewiska, warehouse in Błonie

As part of the supervision and improvement of the Food Safety Management System, **348 internal audits** were carried out, including quarterly audits of distribution centers, and 444 managers were trained in operational units. As part of cooperation with demanding network clients and acquiring new clients, the Sosnowiec, Plewiska and Błonie EC Gastronomy branches additionally obtained the MSC and ASC Supply Chain certificate, which means that the sale of these stores includes fish and seafood exclusively from sustainable, certified fisheries or farming. As part of the food safety supervision, 67 warehouse, 72 load audits and 236 transport audits were carried out during deliveries to the clients in addition, **912 persons** were trained in quarterly recurrent trainings.

In order to provide its customers with secure products of the Eurocash Good Choice! Own Brand of the highest and repeatable quality, in 2018 a total of **2533 laboratory tests** were carried out, sensory evaluation was carried out during 321 tastings, a total of 1154 passports, labels and stickers were approved. In addition, 33 of the household chemistry products Good Choice! has been subjected to certification in accordance with the BRC CP standard. Clients can recognize products certified by the presence of TUV Nord logos on the label. As part of increased supervision over suppliers of own-brand products, the number of audits carried out has also increased to 148.

A) REMOTE ELECTRONIC TEMPERATURE MONITORING IN ALL FACILITIES

In 2017, the Eurocash Group introduced to its logistics facilities a Blulog temperature control system, based on radio technology - active RFID. The system has been installed in most Distribution Centers throughout Poland and in Eurocash Gastronomy warehouses.
As part of the system, wireless temperature sensors have been installed in the warehouses, which send data via radio to the relays, and these to the database on the server. The system allows for maintaining high quality of all products and minimizing losses resulting from temperature changes.

4.3 FRESH PRODUCTS QUALITY VERIFICATION

The fresh products quality control process in the Eurocash Group is carried out in accordance with the main stages described in the above diagram and other tasks, ensuring the fulfillment of quality parameters agreed with the EC customer, and above all to guarantee the health security of the distributed food.

CHECKING THE GOODS IN THE STORE

SUPPLIER SELECTION

QUALIFYING AUDIT

ORDER

COMPLAINT

QUALITY

INSPECTION OF ASSORTMENT AT THE SUPPLIER

TRANSPORT CONTROL TO THE STORE

STORAGE TRANSPORT FROM THE SUPPLIER / CONTROL

ASSORTMENT COLLECTION CONTROL

CONTROL OF THE STOCK

STORAGE

INSPECTION OF RECEIVED ASSORTMENT AT THE CD

A) AUDITS AT SUPPLIERS'

We always start cooperation with food suppliers for our Group from the so-called an initial audit in terms of food safety, which will allow us to assess a potential supplier. The initial audit is carried out on the basis of an audit list prepared by Eurocash, by a qualified team of auditors. Further negotiation talks are conducted only with those suppliers who will obtain a positive result of the pre-audit. In addition, periodic audits of suppliers are carried out during the cooperation.

In 2018, the number of suppliers' audits was increased to **461** (Table no. 11)

Table 11: *Number of suppliers' audits executed*

CATEGORY	AMOUNT
MEAT/COLD CUTS	133
FRUITS/VEGETABLES	103
CONVENIENCE	94
EGGS	8
FISH	12
BREAD	30
DAIRY PRODUCTS	55
FROZEN PRODUCTS/ ICE-CREAM	8
OTHER, INCLUDING PHARMACY	18
SUM	461

461 AUDITS

B) QUALITY CONTROLS

Designated quality controllers and technologists regularly carry out quality checks at suppliers'. They supervise the preparation of fresh products (meat, fruit - vegetables, fish) directly at the manufacturers' premises. In 2018, **675 quality controls** were carried out.

In the central magazines of the Eurocash Group, quality controls of fresh products also take place. They are implemented by a team of quality controllers with expert qualifications. Each delivery is controlled in terms of compliance with the parameters specified in the product specifications, developed by a team of technologists.

C) ACTIVITIES IN THE SCOPE OF STORAGE AND PICKING

As part of maintaining the highest quality of fresh products, daily warehouse inspections are carried out to ensure quality during the storage process.

Cyclical checks are carried out on the correctness of picking fresh products before shipment to customers.

D) LABORATORY TESTS OF FRESH PRODUCTS

In 2018, the frequency of microbiological and physicochemical testing of products delivered to Delikatesy Centrum was increased, including:

- **fruits and vegetables- 24**
- **meat- 97**
- **fish - 64**

E) TRAINING FROM THE SCOPE OF FRESH PRODUCTS

The Quality Control Department trained **511 employees** of Delikatesy Centrum stores and operational departments in the field of security and rotation of fresh products.

For training purposes in the field of managing the display of fresh products, local visits to our customers are also held. In 2018, the quality controllers carried out 174 visits.

511 EMPLOYEES

F) COMPLAINT PROCESS

The quality control department handles the complaint process of fresh products 7 days a week, providing answers 24 hours from reporting complaints on dedicated platforms.
As part of the complaint process, local visits to our clients are also carried out.

G) REPORTING SYSTEM

Each process supervised by the department of quality control of fresh products is completed with a report sent to specific recipients. Reported areas include deliveries of fresh products, level of complaints, rotation, discounts, storage tests and laboratory tests.

5.1 EMPLOYMENT STRUCTURE

The employees have an invaluable influence on the shape and functioning of the Eurocash Group. The Group's financial result is largely reliant on their engagement and attitude. Creating human and intellectual capital is an intangible asset of the company. As of 31.12.2018, Eurocash Group employed **21 404 people** in comparison to 17 157 people at the end of 2017. The employment structure in division by gender and age of the employees has been presented below*.

Table 12: *Employment structure by gender in Eurocash Group as of 31.12.2018*

Employment structure	2018	2017
Woman	64,7%	57,9%
Man	35,3%	42,1%

Table 13: *Employment structure by age in Eurocash Group as of 31.12.2018*

Employment structure	2018	2017
Below 31 years old	29,3%	30,5%
31 - 40 years old	35,5%	37,2%
Above 40 years old	35,2%	32,2%

Table 14: *Structure of newly employed in 2018 by gender*

Structure of employees	Woman	Man
Number of persons	5 287	2 938
% of employees	64%	36%

Table 15: *Structure of newly employed in 2018 by age*

Structure of employees	Up to 30 years old	31 to 49 years old	50 years old and more
Number of persons	4 320	3 318	587
% of employees	53%	40%	7%

Table 16: *Employment rotation in 2018*

Rotation	2018	2017
Number of hired employees	8 257	5 972
Number of employees who ceased employment	8 756	5 928
Net result	-499	44

** The data includes both wholesale and retail companies belonging to the Eurocash Group. 2017 does not contain data for the Mila Group acquired on May 29, 2018.*

5.2 WORKPLACE HEALTH AND SAFETY

Health and Safety in Eurocash Group in most of all a system, the aim of which is preventative security and work environment monitoring all persons employed at the Eurostar Group. The Group employees specialized professional, whose task it is to, among others: increase awareness of security and work safety in the employees everyday lives, and their loved ones.

The activities conducted by them, focus on, among others:

- conducting periodical work and safety trainings
- spreading knowledge and increasing skills from the range of giving first aid
- conducting activities in the area of fire safety
- organization of prevention programs

In 2018, there was a decrease in accidents by 1,33% compared to 2017. All accidents were light, most often involving forklift trucks overruns or falling out of the cab.

Table 17: *Number of accidents in Eurocash Group*

Type of accident	2018	2017*
At work	377	373
On the way to or from work	68	78
Total	445	451

** The data includes both wholesale and retail companies belonging to the Eurocash Group. 2017 does not contain data for the Mila Group acquired on May 29, 2018.*

A) SAFETY PROBLEMS REPORTING SYSTEM

In 2018, a „register of potentially accidental events" was introduced in several Distribution Centers. Each employee can report such an event. Every month, the results are summarized and the applications are forwarded along with recommendations for implementation.

B) PREVENTION PROGRAMS

In the Eurocash Group in 2018, two preventive programs were conducted: „Bull's eye" ("Strzał w 10-tkę") and „Zero tolerance for non-compliance" ("Zero tolerancji dla nieprzestrzegania przepisów").
The „Bull's eye" program includes short meetings with em-

ployees, lasting about 10 minutes. They consist in discussing a selected topic, e.g. manual transport, truck service etc. This is often accompanied by a practical demonstration of the most important threats and their prevention. Short films are often presented from accidental events that took place in the Group, and the employees themselves present their observations, indicate errors.

The „Zero tolerance for non-compliance" program includes flagging of OSH documentation and presentations with action logo, posters on preventive issues, setting minimum acceptable results of health and safety control and their reporting and comparative analysis to other parts of the Group.

Another initiative is the so-called „security cross" - the communicator about the number of days without accident updated every day. It is placed in a visible place for everyone. In addition, monthly comparisons of units are carried out in the subject of accidents. This comparison is based on two parameters: severity of accidents and frequency of outings. In addition, information is provided to the management about the causes of the occurrence of adverse events and post-accident recommendations for implementation.

C) FIRST AID TRAININGS

Among our society, and therefore also among the employees of the Group, there is insufficient knowledge to provide medical assistance to others, which is why the Eurocash Group Management decided that 20% of people in each department should have practical first aid skills. However, at the request of the Cash & Carry business, mandatory first aid training for all employees was introduced. Therefore, the Health and Safety Department annually organizes a series of open trainings on first aid.

During the trainings, participants acquire knowledge, skills and develop the proper attitude necessary to bring invaluable help in conditions threatening human health and life.
In 2018, trainings were organized in 11 Eurocash Group offices throughout Poland. A total of 973 employees of the Group were trained.

In Distribution Centers, however, trainings for the so-called Rescue Groups were conducted, which apart from the ability to provide first aid, practice the rules of conduct in the event of a collective accident and other hazards involving a larger number of injured people.

E) PROGRAM TO INCREASE SAFETY AND ECOLOGY OF DRIVING

One of the two objectives of the program developed in 2017 was to increase the safety of people using company cars of the Eurocash Group.

As a result of implementing 11 principles of Ecodriving in the Eurocash Group and their verification by means of a dedicated mobile application, it was possible to identify people who require additional support in the field of safe driving - the assumption of the project was to reach this type of people.

Thanks to the program, the level of awareness of employees using company cars on the subject of safe car driving increased above all. Each of them receives a detailed report on their behavior on the road, thanks to which they can make appropriate changes on an ongoing basis. Persons who require support in this area may benefit from the support of appropriate specialists.

The resultant improvement of the driving style of employees and increase their attention on the road is greater fluidity of driving, and ultimately a higher level of safety of drivers and their passengers, and thus, lower emission of harmful substances into the atmosphere.

Another indicator that is important from the point of view of the natural environment is fuel consumption for every kilometer driven. The introduced practice has increased the number of kilometers traveled per **1 liter of fuel by over 10%.**

F) HIGHER SAFETY REQUIREMENTS FOR NEW CARS

From 2018, new requirements for car specifications for the Eurocash Group were introduced. They are aimed at increasing the safety of our employees in road traffic. All cars ordered from 2018 are compulsorily equipped with, among others, an early response system in case of collision risk or lane change signaling. In addition, D segment cars have a parking assist system. All Group cars are also equipped with instructions for first aid and the EcoDriving principle.

5.3 EMPLOYEES HEALTH

In the area of health care for employees at the Eurocash Group in 2018, a number of projects were organized, the most important of which were indicated below:

- daily provision of fruits to employees;
- all employees of the Group are provided with free private Medicover medical care;
- employees of the Group have the option of buying fitness cards on attractive terms;
- employees also receive support in sports competitions in which participation is financed, sportswear is provided. Employees also participate in the Running-Friendly Company program.

5.4 HUMAN CAPITAL DEVELOPMENT

A) TRAININGS AND DEVELOPMENT

In caring the development of employee skills, Eurocash Group adopted a Policy of Development and Employee Trainings, adhering to basic rules:

- development in the workplace
- taking part in trainings and conferences
- financing education
- certifications and permits (IT, BHP etc.)
- learning foreign languages

In accordance with the adopted policy, an initial analysis of individual and group development/training needs is conducted during the budgeting process (August-October) of each year. The results of this analysis, are the basis of preparing a budget for development activity in the next year. Detailed plans of development/trainings (individual and group), regarding the next year, are accepted after the yearly employment process is finished for the current year.

Aiming at improving the professional qualifications of employees, we organize trainings and workshops for them by a team of internal trainers or external companies. In addition, employees have the opportunity to use the e-learning platform and library, and can apply for funding for studies. In 2018, the Eurocash Group started supporting the vocational training of another 16 employees.

The implemented so-called "Eurocash open trainings" are a response to the employees' need of development, address the most important development areas, and standardize the level of knowledge, as well as enable employees to exchange experiences. Topics that enjoyed the most interest were "Assertiveness", "Self-management in time", "Work performance management" and trainings related to the development of managerial competences.

Unlimited access to the e-learning platform gives the employees of the Group the opportunity to decide at what pace they will implement the given training topic, ensures constant access to these materials so that they can return to the selected content at any time. This form prepares employees for traditional training as well as helps them complete and consolidate the already acquired knowledge. Last year, employees completed 16,790 e-learning courses comparing to 5,088 in 2017.

The company's library is a response to the employees' need to broaden their knowledge by themselves. The Eurocash Group conducts and constantly updates the internal library from various fields useful in everyday work. Each employee, irrespective of the place of work, may report to the HR Department the desire to borrow a specific title, after which the book is immediately forwarded to the employee by internal mail. The list of titles and their availability can be checked at any time on the internal employee portal. In 2018, employees rented 255 books.

Table 18: *Average number of training hours of Eurocash Group employees in 2018*

Employees participating in training (excluding e-learning)	Average number of hours per employee	Number of people covered by the training	Number of persons/ training events*
Woman	25,40	1 133	1 663
Man	26,90	1 190	1 842
Total	26,15	2 323	3 505

** persons/training event - the number of people participating in the training including multiple participation in the training of individual participants*
*** The data includes both wholesale and retail companies belonging to the Eurocash Group. However, they do not contain data for the Mila Group acquired on May 29, 2018.*

Table 19: *Average number of training hours by grade in 2018*

Employees participating in training (excluding e-learning)	Average number of hours per employee	Number of people covered by the training	Number of persons/ training events **
Specialist	19,19	1 240	1 648
Manager	33,10	1 083	1 857
Total	26,15	2 323	3 505

**persons/training event - the number of people participating in the training including multiple participation in the training of individual participants*
*** The data includes both wholesale and retail companies belonging to the Eurocash Group. However, they do not contain data for the Mila Group acquired on May 29, 2018.*

Table 20: *Number of people who completed e-learning courses by grade in 2018.*

Employees participating in e-learning trainings	**The number of people covered by the training**
Specialist	14 332
Manager	4 000
Total	18 332

Table 21: *Number of people who completed e-learning training broken down by gender in 2018*

Employees participating in e-learning trainings	**The number of people covered by the training**
Woman	9 344
Man	8 988
Total	18 332

B) PERFORMANCE MANAGEMENT POLICY

The realization of the Eurocash Group's strategy requires engagement from all employees. The managerial staff and employees of central departments are encompassed by a performance management, on an annual basis.

Managing Performance is a management method allowing the company strategy to be realized by translating it to aims and daily practices of managers and employees. To put it simply:

- „playing" as Company, on team, for one goal,
- clearly defining, what is expected of the employee,
- regular meetings between the superior and employees concerning their progress in achieving targets
- the employees taking part responsibility for defining the method of achieving targets
- work method, in which managers help their employees and give them regular feedback
- reliable performance evaluation on the basis of clear criteria and feedback obtained during the whole year

The Performance Evaluation Process is comprised of the following stages:

- Setting targets – defining targets for the current calendar year
- 1on1 meetings - supervisor feedback for the employee, in regards to realizing aims and return – feedback from the employees for the superior. These meeting aim to define the expectations for each employee, foster their development, allow to evaluate the status of target fulfillment. It is recommend that these meetings occur at least 1 per quarter.
- Yearly employee evaluation, a part of which is a 360 evaluation – an evaluation of the level of fulfillment of targets set for the employee for the previous calendar year, achievements and work skills.

In the framework of the 360 evaluation, the employees receive feedback regarding the skill not only from their supervisor, but also from their subordinates and employees in parallel positons. Thanks to that, they can recognize areas in which they can improve their skill, and therefore develop faster. In 2018 there was an increase in the number of persons participating in evaluation, to 2 253.

Table 22: *Number of people which took part in 360 evaluation*

360 evaluation	Women	Man	Total
Number of people	1 086	1 167	2 253

Table 23: *Number of people which took part in 360 evaluation in division to positions*

360 evaluation	Specialists	Supervisors	Managers	Board and directors
Number of people	1 132	905	143	73
% covered by evaluation	50,24%	40,17%	6,35%	3,24%

C) MANAGEMENT PROGRAMS

In order to enable quick development of talented, ambitious and competitive students and alumni, Eurocash Group manages two managerial programs – Management Trainee (MT) and Sales & Operations Trainee (SOT). Both management programs aim to educate managerial staff able to conduct complicated projects in different departments of the Eurocash Group. The second one aims to trainee a staff specializing mostly in sales and logistics.

SALES & OPERATIONS TRAINEE

Each person joining the Management Trainee program, goes through an intensive 3 month training in different Euorcash Groups departments and locations. The next stage is an internship in two different departments, 6 months in each. After finishing the internship, the employee assumes a Junior Manager position in a chosen Eurocash Group Department, retaining the ability for further development and to take over key positions in the company, in the next few years.

Trainee program, the participants develop the skill working after an initial training as Sales Representatives and Client Advisors in the largest Eurocash business units, a after around 2 years, they assume Regional Sales Manager positions. The target position after finishing the SOT program is the Regional Operations Director.

Table 24: *Number of people who participated in Eurocash Group Managerial Programs*

Participating in managerial programs	2018	2017
Woman	7	4
Man	10	7
Total	17	11

D) INTERNAL RECRUITMENT AND PROMOTIONS

Eurocash Group regularly makes information available on currently conducted recruitment processes. Thanks to that the employees have the ability to apply for a position, which should enable their further development. In the framework of internal recruitment, the employees can also recommend their friends and loved ones.
In 2018, in the Eurocash Group, **546 employees were promoted to higher positions*.**

546
PROMOTED
EMPLOYEES

* The data includes both wholesale and retail companies belonging to the Eurocash Group, excluding the Mila Group taken over on May 29, 2018 and the Companies Rogala Sp. z o.o., FHC-2 Sp. z o.o., Madas sp. z o.o., .

E) SUMMER INTERNSHIP PROGRAM

Eurocash Group invests in the development of youth studying at higher learning institutions in Poland, giving them the ability to take part in a paid Summer Internship Program in the vacation period, i.e. free of university classes. The internship is intended for students at any point in their studies, of any major, who want to learn and develop, an most of all, characterized by curiosity, openness, commitment, motivation and courage.

Table 25: *Number of people who participated in the Eurocash Summer Internship Program*

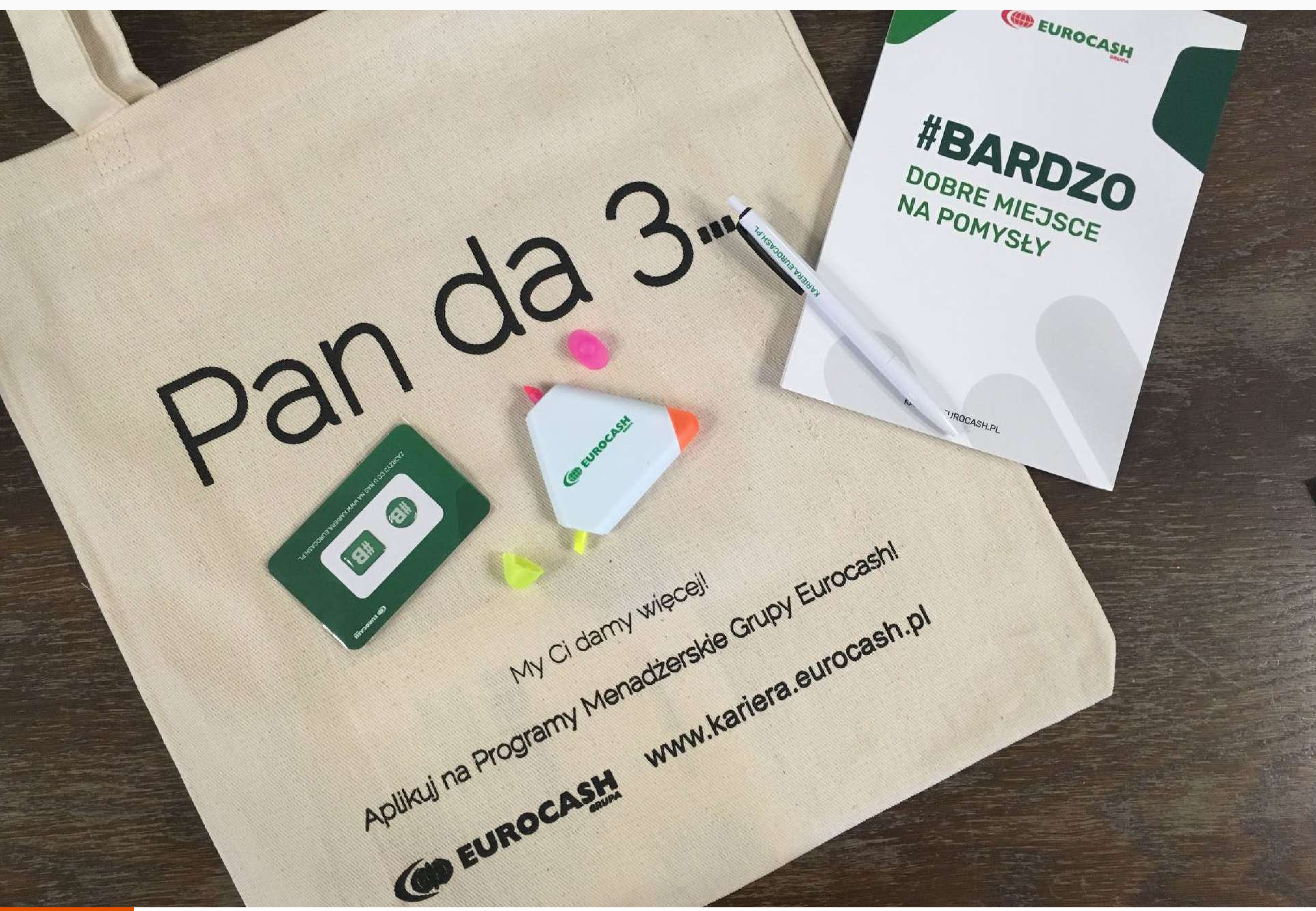
Participating in the summer internship program	2018	2017
Woman	14	16
Man	6	7
Total	20	23

The recruitment for the program is usually conducted on the turn of March and April. People who qualify for the program after a short internal turning and integration, have the ability to take part in a 2-3 month internship in a chosen Eurocash Group department.

F) COOPERATION WITH UNIVERSITIES

The Eurocash Group regularly cooperates with Polish universities. The Ambassadors Program is run at universities, thanks to which in the academic year 2018/2019 the Group is represented by 9 Ambassadors - Students (6 women and 3 men). In Warsaw, one Ambassador at the Warsaw School of Economics and one at the University of Warsaw, Ambassador at the Warsaw University of Life Sciences, Ambassador at Warsaw University of Technology.

In Poznań, two Ambassadors at the Poznań University of Economics and Business and one each at Poznan University of Technology and Adam Mickiewicz University. Ambassadors support the Group in regular events held at universities such as "Wyprawka dla Pierwszaka", "Santa Claus from Eurocash" and numerous lectures and workshops. Ambassadors also help to establish cooperation with student organizations operating at given universities.



In addition, Eurocash is a business partner of the University of Economics in Poznań, and Luis Amaral - President of Eurocash S.A. - since 2017, he is the deputy dean of the Partner Club of the University of Economics in Poznań.

G) EUROCASH FOUNDATION SCHOLARSHIPS

The Eurocash Foundation, which has been operating for five years, runs a scholarship program for talented young people - children of employees of various business units of the Eurocash Group as well as employees of franchise stores and partner companies cooperating with the Group. All-year scholarships for the school year and academic year 2018/2019 was granted to 146 pupils and students, who are not only distinguished by their academic performance, but also social activity, special achievements in various fields and the attitude I WANT, SO I CAN. In this number, 70 people are children of employees of various business units of the Eurocash Group, and 76 - children of persons employed in various networks cooperating with us. For five years of operation, the Foundation financed nearly 750 full-year scholarships, supporting 440 young people on their way to dreams. The difference between these two numbers is due to the fact that you can apply for a scholarship every year. Some scholarship holders managed it even five times!

Scholarships are granted on a ranking basis; they are received by the best candidates selected by the Qualification Committee. The criteria are transparent, clearly defined in the Regulations.

The effect of the program is to support almost **440 young people** in pursuit of dreams, with a significant financial relief of the same number of families. We have people in the group of scholarship holders, for whom the scholarship literally decided about their future - without the financial support of the Foundation, they would not be able to study.

5.5 DIALOGUE WITH EMPLOYEES AND PARTICIPATION

To better understand the needs of employees, the Eurocash Group conducts a broad dialogue with employees. Communication channels with employees are as follows:

- Facebook,
- Employee portal and social platform, where you can find the most important and the latest information related to the “inside” life of the company,
- Traditional channels - notice boards, posters
- Road Show – field meetings with the management staff allowing to ask questions and exchange opinions on the company's strategy
- Weekly newsletter of "Have a nice week" to Employees from the President of the Management Board, Luis Amaral
- Chat with representatives of the Board - allowing you to ask questions and exchange opinions
- Strategic meetings with the Management Board for managers

A) EMPLOYEE OPINION STUDIES

Eurocash Group conducts regular Employee Opinion Studies. During the Study employees can share their opinions, feeling and needs in regards to their work environment. The Study has been carried out in complete confidentiality, and its results were gathered and analyzed by a company specialized in this type of studies – Aon Hewitt. After finishing the study, Eurocash Management, along with their employees, determined actions which enable the creation of a friendly work environment, enable further development and an increase in commitment in the employees. The responsibility to take action and make decisions on the basis of study results has been divided between 3 parties, which were assigned different roles in the process of building high Employee commitment:

- Management – whose roles is to remove barriers, which currently hinder the building of high commitment and planning group-wide initiatives.
- Personnel Department (Management and Trainers) – whose roles is to furnish the managers with knowledge and skills in the area of communicating results and planning actions.
- Managers – whose largest roles in engaging their people, because they’re in the closest contact with their people and can most effectively choose and implement actions on the basis of study results.

B) WORKPLACE PLATFORM

In order to improve internal communication, the employees of the Group as one of the first in Poland started using the Workplace by Facebook platform. It is a social networking site for employees, largely reminiscent of the Facebook portal, however, differing in certain functions that facilitate communication in the company. With its application, Group has received new opportunities to improve internal communication and build engagement among employees.

Platform users create their own profiles, integrate into groups on topics of interest, talk, "like", etc. Some departments use it for everyday internal communication. Each employee can access the platform through a browser or application on a mobile phone. The portal also allows you to send important messages to employees and receive immediate feedback from them.

C) ROAD SHOW

From 2017, the initiative of organizing field meetings with management staff was undertaken, aimed at enabling direct asking questions and exchanging opinions on the company's strategy. During the meetings, Eurocash Group's results and plans for the current year are presented. In 2018, Road Show came in 8 cities, gathering a total of 765 people. Board members involved in 2018 in the project are Luis Amaral and Katarzyna Kopaczewska.

D) WEEKLY NEWSLETTER "HAVE A NICE WEEK!"

For two years, the Eurocash Group regularly informs all employees, both office and those working in distribution centers and halls, about important topics related to the company, employees, as well as the entire FMCG industry and the trends prevailing in it.
The "Have a nice week!" Newsletter is sent by the President of the Board - Luis Amaral. It is received by all employees with business emails, every Monday at 7:00. In addition, it is printed and displayed in prominent locations in the Group's locations.

E) #VERY VALUABLE CAMPAIGN

The campaign was initiated in May 2018. As part of the campaign, employees were able to nominate their employees - people who in their daily work realize fully company values. As part of the campaign, the managerial staff also recorded videos explaining the meaning of our values. We also recorded the statements of board members about what particular values mean to them and how to understand them. In addition, every month we looked at one selected value and collected employee nominations. Everyone could submit their candidate in individual categories. In total, almost 150 applications were submitted during the campaign. The campaign ended with a solemn meeting of the distinguished people with the President and Members of the Board, during which Lusi Amaral personally thanked all the honored people. At the meeting, we also created the possibility of open conversation between employees and the Management Board.

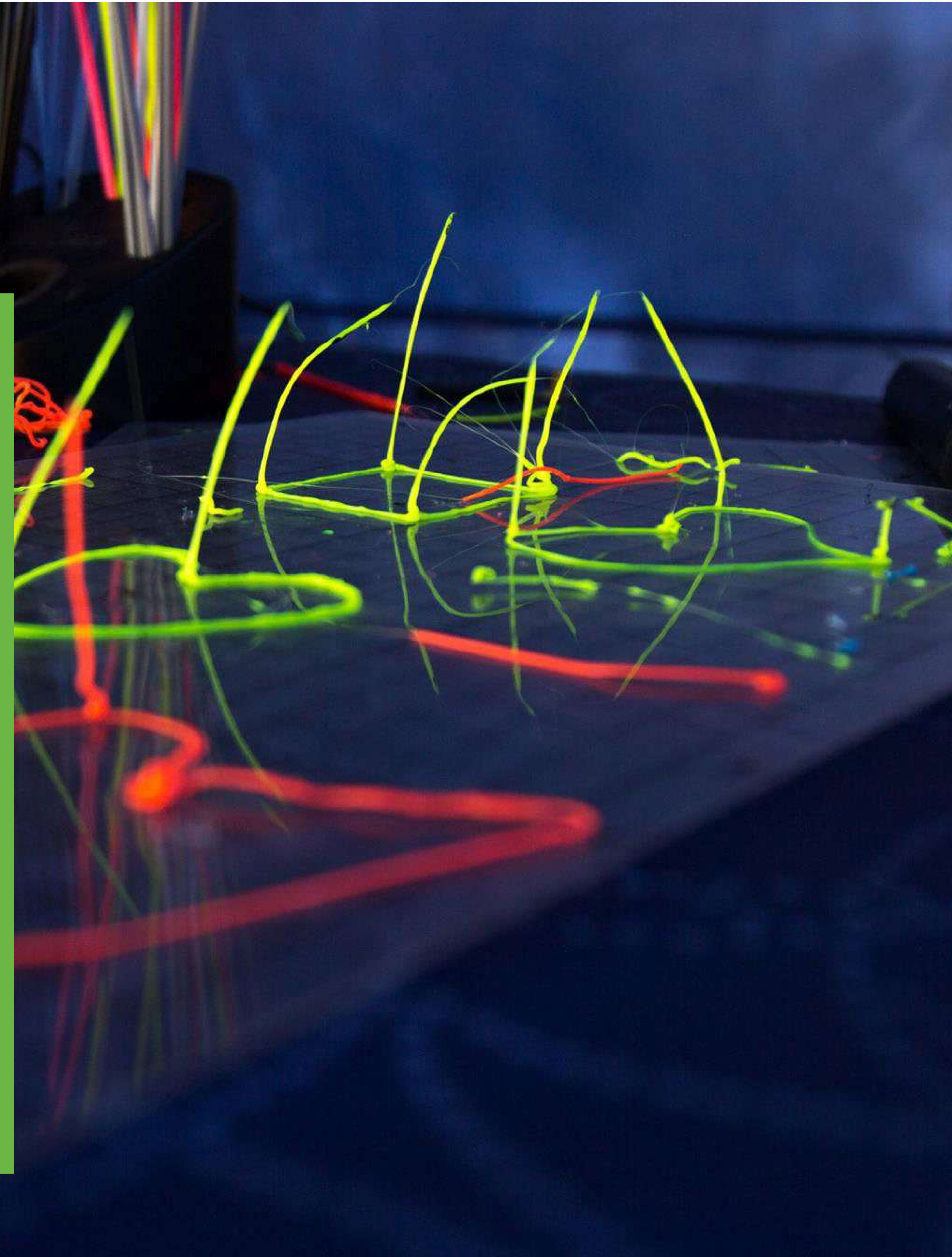
5.6 MOTIVATION AND INTEGRATION

All employees - regardless of their working hours - have equal access to additional services. As the Eurocash Group in 2018, we used the following tools and methods of non-wage employee incentives:

Eurocash Group gift cards - modern tool allowing to make holiday purchases in grocery stores. In 2018 nearly 13 630 gift cards were issued to employees of the Group.

Christmas packages –in the Christmas period, the children of the employees receive gifts of candy from the Eurocash Group. In 2018, 10 021 packages were given out.

Family picnics - an important element of holiday meeting of the employees and their families. They occur each year in 13 locations in all of Poland. In 2018, over 22 thousand people took part in the picnics (employees and their families). The picnics are a lot of fun for the kids and the adults.



Art contest -. each, a contest is organized for the children of employees, which gives them the ability to exhibit their ideas and interpretation of a subject chosen by them. The best works are rewarded with prizes. In 2018 over 260 drawn works were submitted for the contest.

Ticket lottery - each month, tickets are drawn for interesting events in Poland. Independently from the location, in which employee works and/or lives, they can take part in the drawing, and along with an accompanying person, take part in a given even for which they drawn tickets. In 2018, 55 drawings were organized, to which over 15 600 applications were sent.

Holiday parties - each year, in all of Poland, holiday parties are organized for Christmas and New Year. It is a possibility, to spend time in holiday atmosphere, thank each for a year's hard work, and meet colleagues from other cities and locations.

Private medical care - all Eurocash Group employees have the ability to buy, on preferential terms, a medical package from of the companies offering private healthcare services.

Services for employees - Eurocash Group offer a package of various services in the framework of employee social support. The main element of this activity are the summer camps, which in 2018 were participated by 630 children of Eurocash Group employees during the holiday season.

Fitness Cards - Eurocash Group in cooperation with external partner, provides the employees, on favorable terms, cards which allow them access to different athletic and entertainment institutions in the whole country. In 2018, 3 340 people took advantage of these cards.

5.7 EMPLOYEE RIGHTS

A) ANTIMOBBING POLICY

Eurocash Group assumed an Internal Antimobbing Policy, which sets the rules for counteracting mobbing in the Group. Eurocash Group Management counteracts mobbing and does not tolerate any actions and behaviors which show signs of mobbing. The policy defines, in detail, the method for submitting mobbing complaints by the employees, as well as the mode of explaining and handling complaints. Being familiar with and utilizing the Policy is the obligation of every Eurocash Group employee. The Eurocash Personnel Director is responsible for supervising and realizing those policies.

B) TRUST LINE

Each day, sever thousand Eurocash Group employees works honestly and reliably to realize their and the company's targets. However, it is possible, that individuals can put their own gains over the team's or act against the ethical and moral code, ignoring the effort and reliability of their colleagues. To quickly identify these situations and react appropriately (and eliminate such incidents in time), the Group launched a companywide Trust Line.
The Trust Line is used to report cases of:

- Theft
- Fraud
- Infringing on company Policies
- Mobbing
- Sexual harassment
- Other unethical conduct

Cases of abuse can be reported to a dedicated phone number, which is a attended by a dedicated employee on each Monday (10.00 – 12.00) and Thursday (14.00-16.00). At any other time, the employees can leave a voice mail, send a text message, an e-mail or traditional mail.
Any noticed abuse can reported directly, without prior exhaustion of formal methods. Accepted are named and anonymous reports. Each case will be carefully considered. If the report contains contact data of the person reporting, the reported will be constantly updated on the case's development. Eurocash Group ensures complete confidentiality.

C) DIVERSITY IN THE WORKPLACE

The Eurocash Groups employees every person, regardless of their age, gender, nationality, ethnicity, race, creed, disability, sexual orientation and political views. The Group does not tolerate any actions and behaviors which bear the sings of any type of discrimination of another employee, contractor or third party.

5.8 CODE OF ETHICS

In the interests of high ethical standards of work and transparency of business relationships, the Eurocash Group adopts the Code of Ethics, which aims at defining the standards of conduct expected from all Eurocash Group employees in a clear and transparent manner. It contains key Group values: customer orientation, profit sharing, entrepreneurship, responsibility, reliability, transparency, job satisfaction and team work.
The Code facilitates the conduct of employees in particular in situations related to, among others with gifts, information confidentiality, discrimination or conflicts of interest.

Every new employee undergoes ethics training in the Group. For this purpose, an obligatory e-learning training was prepared in which information on the values and principles of ethics together with specific examples of their use has been systemized. Persons without permanent computer access receive the Codex in paper version. Superiors are required to ensure compliance with ethical principles by their employees.

Members of the Board regularly resemble e-mails addressed to everyone about the most important principles, eg during holiday periods when it is more common to practice giving gifts. In the Group, a ban on accepting gifts is strictly forbidden when a situation arises in which, despite everything, the employee receives a gift, he is obliged to hand it over to the head office, then the presents are distributed among all employees at various company events. The adoption of the Code has led to the strengthening of ethical standards and the creation of a working environment in which the values of the Eurocash Group are promoted.

6.1 PROMOTION OF ENTREPRENEURSHIP

C) EUROCASH SKILLS ACADEMY

Online presence allows independent store owners and their employees to receive the support necessary for survival and development on the market, where they compete with large-area retail chains (including hypermarkets and discounters). An important element is to provide franchisees with the opportunity to acquire knowledge in the field of work and management of a grocery store based on current trends.

Eurocash Skills Academyis the largest comprehensive educational and training program in Poland supporting Polish independent retail stores associated in franchise and partner networks of the Eurocash Group. The program is attended by representatives of the Eurocash Group's franchise and partner networks: abc, Delikatesy Centrum, Euro Sklep, Gama, Groszek, Lewiatan, Duży Ben and Kontigo. As part of the Academy, shop owners and employees use the e-learning platform, workshops and conferences, thanks to which they can gain knowledge in the field of work and store management.

In realizing this project, the Group set itself three targets:

- giving partners access to current expert and specialist knowledge,
- ensuring the possibility of using modern education forms and methods and
- supporting an ongoing exchange of experiences.

The Eurocash Skills Academy is based on four pillars:

- an interactive education platform,
- workshops and
- conferences
- postgraduate studies.

The Eurocash Skills Academy operates under the patrona-

ge of the Warsaw School of Economics, the Polish Chamber of Commerce, Polish Franchiser Organization, Franchsing.pl and the Retail Learning Institute. Media patronage for the Academy is supplied by Poradnik Handlowy. Partners of the academy are also: Carlsberg, CEDC, Coca-Cola HBC, Colian, E. Wedel, McCormick, Rybhand and Spomlek.

Since 2010, a total of over 62,000 people have benefited from the educational offer of the Skills Academy.

Thanks to the Academy, Eurocash Group is able to supply the Clients with knowledge on modern standards which will allows them to strengthen their position in the independent retail market in Poland and beat their competitors.

In 2017, the Eurocash Skills Academy received the Special Hermes prize. The jury of the competition appreciated the scale of activity, professionalism, high quality of the offer and a personalized approach to the client.

In 2018, the Eurocash Skills Academy obtained ISO 29990 certificate in the scope of educational services, which confirms the highest quality and effectiveness of the Academy's educational offer. The ISO certificate ensures that the teaching processes conducted by the Academy are constantly improved, which means that the Academy provides access to the highest level of knowledge.

6.2 1ST PILLAR OF THE ACADEMY – EDUCATIONAL PLATFORM.

The educational platform is available at www.akademia-eurocash.com.pl. The new version of the website provides users with unlimited online access to over 70 e-learning courses on topics corresponding to the needs of grocery stores. Multimedia trainings placed on the platform combine lectures with the practical use of acquired knowledge. The courses cover all areas of the store's operation - from financial management, personnel, fresh departments, to customer service and merchandising. The offer of over **70 e-learning courses** includes 11 conducted in Ukrainian.

The platform also provides access to specialist and expert articles in the field of modern store management. A novelty in 2018 on the platform were, among others, e-learning courses and articles about succession, which aims to protect business and family assets and effectively hand over the store to the successors (children, family).
Monthly newsletters with market curiosities and expert opinions sent to all users of the platform complement the knowledge. **In 2018, 12,400 people used the educational platform.**

70
E-LEARNING
COURSES

6.3 2ND PILLAR OF THE ACADEMY - WORKSHOPS

With the help of a personalized website, users have the opportunity to register also for workshops conducted throughout Poland by trainers-practitioners with 20 years of experience in trade. Workshops are a practical part of the training program implemented by the Eurocash Skills Academy. Participants can use the extensive thematic offer of training, the most popular topics are: "Meat-cold cuts stand", "Customer service", "Losses in the grocery store", "Fruit-vegetables stand". From the beginning of the Eurocash Skills Academy over **31,000 people** participated in the workshops, including over 6,000 shop owners and employees trained in over 70 locations across Poland in 2018.

In 2018, the Eurocash Skills Academy also launched, under the patronage of the Education Development Center, a special program of training and educational workshops for vocational school students, which shows young people from all over Poland that the profession of the seller gives interesting career prospects, and with appropriate involvement can also bring satisfying salary. Over 130 students from all over Poland took part in the meetings at vocational schools.

6.4 3RD PILLAR OF THE ACADEMY – EDUCATIONAL CONFERENCES

Substantive conferences are meetings of thousands of entrepreneurs from all over Poland, during which the participants deepen their knowledge about store management and learn about the latest trends and solutions in retail trade. The annual Congress of Polish Trade Entrepreneurs is a great opportunity to exchange experiences and integrate people who work every day in the same industry. During the conference, workshops, consultations and meetings with market experts from Poland and around the world are organized. So far, over 18 thousand people participated in educational conferences organized by the Eurocash Group, of **which almost 5,000 people in 2018.**

6.5 4TH PILLAR OF THE ACADEMY – POSTGRADUATE STUDIES

Experiences of the Eurocash Skills Academy have shown that store owners and employees want to develop their professional skills, which is why the Group decided to go "a step further." In October 2017, in cooperation with the Warsaw School of Economics, Eurocash launched the first edition of the postgraduate program "Business management in retail trade" for people who will take over and run grocery stores in the future. 45 listeners take part in the first edition. This is the first study of this type in Poland, which was created thanks to the cooperation of a university and a company from the FMCG sector.

Postgraduate studies allow franchisees of the Eurocash Group to obtain, within a year, comprehensive knowledge needed to manage the store. The program is adapted to

the current requirements of entrepreneurs and consumers. After graduation students will be prepared to run grocery stores according to current market standards, and professionally managed outlets will contribute to improving the quality of service in the so-called "on the corner" stores. In addition, students receive access to tools and knowledge previously reserved only for large, often international, hypermarket and discount chains.

In order to become a participant in the studies, you must have a bachelor's degree, an engineer's or master's degree and have, among others, one-year work experience in a commercial enterprise. The study program includes 166 hours of classes devoted to many different areas, such as personnel management, finance or marketing. The lecturers are professors of renowned universities and external experts with many years of experience in the food market. The form of passing the studies is to develop a business plan for a specific undertaking. At the end, participants will receive a postgraduate diploma and a diploma from the Eurocash Skills Academy.

Studies also contribute to changes in the perception of shopkeepers. The direction created by the Eurocash Group shows that running a store requires appropriate knowledge and positions Polish retail entrepreneurs as representatives of a dynamically developing field of economy.

In 2018, at the Warsaw School of Economics, a Supplementary Training Course Academy of Retail Trade Business Administration was simultaneously established, for persons without higher education, which comprehensively develops the knowledge and skills of participants in the field of store management. In 2018, 30 people completed the course.

Postgraduate studies and the Academy of Management also contribute to changes in the perception of shopkeepers. The major created by the Eurocash Group shows that running a store requires appropriate knowledge and positions Polish retail entrepreneurs as representatives of a dynamically developing field of economy.

B) PROMOTION AND SUPPORT IN SUCCESSION

Succession in business project is spreading knowledge about succession among 15 thousand franchisees associated in the Eurocash Group through lectures, training, disseminated articles and educational films addressing psychological, financial, legal and social aspects that prepare the seniors to hand over their family businesses to their chosen successors. The project for sharing knowledge on succession conducted by the Eurocash Skills Academy is the only such initiative in the trade sector.

In 2018, the following actions were taken:

- The Eurocash Skills Academy in 2018 disseminated knowledge about succession during 39 information meetings, 2 conferences and dozens of information trainings, in which a total of over 8,000 participants took part.
- The succession was the subject of a separate lecture module at the postgraduate studies and the training course "Business management in retail trade" at Warsaw

School of Economics among 115 students.

- Legal aspects of succession were the subject of 2 e-learning courses and 8 substantive articles published on the educational platform of the Skills Academy, which is used by 12.4 thousand users.
- The Academy has published three substantive articles on succession (in March, June, September 2018) in the Handbook of the Merchant with a circulation of 70,000 copies.

C) PROMOTION OF THE SELLER'S PROFESSION

Eurocash trains future sellers. Over 130 students took part in the pilot program of the Eurocash Skills Academy for selected vocational and professional schools from the Podkarpackie, Śląskie and Dolnośląskie voivodships. Each of the students took part in three workshops.

In 2017, the Eurocash Skills Academy began cooperation with selected vocational/professional and technical schools, educating students in the fields of salesman and salesman technician. The pilot program covered selected schools from the Podkarpackie, Śląskie and Dolnośląskie voivodships. In the school year 2017/2018, a total of 25 workshops were organized, attended by 138 students (each of them took part in three workshops). The topics of the classes concerned issues related with customer service and merchandising in the grocery store. Initiative of the Eurocash Skills Academy received the patronage of the Center for Education Development.

The program "Eurocash Skills Academy for the promotion of the profession of salesman in vocational/industry schools and technical secondary schools" was created in response to the growing problem of the lack of qualified sellers in the labor market. The overriding objective of the cooperation of schools and the Eurocash Skills Academy was to promote the profession of a seller among young people.

From year to year there is a weakening interest in the direction of a salesman, which is why schools often connect different profiles in multi-professional classes or completely abandon the opening of subsequent years. In order to meet this situation, the Eurocash Group has created an initiative that not only enriches the current education program, but also shows students that the profession of the seller gives interesting career prospects, and as a result of appropriate involvement can also bring a good remuneration.

As part of the Skills Academy project, Eurocash organizes practical workshops for students, guests in vocational and professional schools during open days and organizes special meetings with parents. Students participating in the program have the opportunity to take paid apprenticeships in the franchise and partner stores of the Eurocash Group. In the course of learning and practice, Eurocash Academy of Skills trainers provide individual substantive support for students. As part of this year's edition of the program, Eurocash organized, among others, a trip for students of the Bieszczadzki Vocational School Complex Lech

Wałęsa in Ustrzyki Dolne to the logistics center in Krosno--Szczepańcowa, in which about 50 people took part.

6.6 SUPPORT FOR LOCAL COMMUNITIES

A) HEROES OF POLISH ENTREPRENEURSHIP - RETAIL TRADE PLEBISCITE

LOKALNI HEROSI

100 inicjatyw przedsiębiorców na 100-lecie niepodległości

"Local Heroes - 100 entrepreneurs' initiatives for the 100th anniversary of independence" is the first all-Poland, pro-social grant project in which Polish enterprises were the inspiration for CSR activities– tens of thousands of shop owners associated in the Eurocash Group.

The inspiration for the project was the 100th anniversary of Poland regaining its independence. The campaign is a continuation of the "Heroes of Polish Entrepreneurship - Retail Trade Plebiscite", during which in 2017 Eurocash promoted best practices in running a business.

In this year's edition, the owners of stores supplying Eurocash in cooperation with non-governmental organizations or public institutions have submitted projects to improve life in the area. **Over 400 ideas** from 250 towns and cities qualified for the voting stage. 100 grants were fought for, supporting initiatives regarding sport, culture, common space, ecology and help for those in need. The total value of 100 grants in three categories: up to 10, 50 and 100 thousand PLN amounted to **PLN 1.5 million.** Points could be earned by sending receipts from the store and voting via the website - a total of almost 5.5 million points were awarded.

It was carried out with the Foundation Pracownia Badań i Innowacji Społecznych "Stocznia", under the honorary patron of the Ministry of Enterprise and Technology.

PLN 1,5 MILION

B) COOPERATION WITH LARGE FAMILY ASSOCIATION 3+

Eurocash Group and the 3+ Large Family Association (LFA), the biggest organization in Poland bringing together large families, work together on the basis of long term cooperation agreement, at a local and national level. The agreement is supposed to server to promote family values amongst clients of the Group and consumers shopping in Eurocash Group franchise and partner stores.

A key current strategic direction for Eurocash Group is supporting polish traders in building professional retail companies, attractive for many generations. This strategy is perfectly supplemented by the cooperation with the 3+ Large Family Association, which allows gaining direct access to the consumers.

The cooperation agreement sing with the 3+ LFA also takes into account the following activities: sales dedicated to large families which are a part of the Association, communication support between the LFA and the Eurocash Group, Eurocash Group brand presence at LFA events in all of Poland, and financial aid for statutory aims of the Association. The brands which, during the cooperation period, will carry out actions dedicated to the Association's members will be the internet retailer Frisco.pl and Deilkatesy Centrum.

C) CHARITY COLLECTIONS AND EVENTS FOR THOSE IN NEED

The Group's employees are eager to engage in pro-social activities when they learn about people or animals in need and help to organize help. The company supports this type of activities.
In 2018, collections were carried out throughout the Group, including for sick children of employees, animal shelters, glasses for the elderly, caps collection. Groups of employees were also involved in the nationwide shares of Szlachetna Paczka and the Great Orchestra of Christmas Charity.

D) CHRISTMAS TREE FULL OF WISHES

Every year, during the holidays in the Group, the largest collection for children from orphanages takes place. The Eurocash Group contacts the Family Children's Homes in Poznań, Warsaw and Lublin. It asks children/mothers for letters to Santa Claus or a list of things (gifts) that are necessary for them. Cards with the name of the presents are posted on Christmas trees in our locations, employees choose the wishes they want to meet and deliver gifts to the Group's headquarters, from where they are transported to individual outlets in the week before Christmas Eve. The campaign is very popular among employees every year.

In 2018, 74 children and mothers in Poznań, Warsaw and Lublin were helped. Our employees have prepared a total of 110 packages that went under the Christmas trees of the most needy children. Benefits from the action for the Group include employee satisfaction and pride with other help provided during the holiday season, for stakeholders - beautiful holidays with a full Christmas tree gift.

E) SECTION OF THE EMPLOYEE PORTAL "HELP!"

There is a special section on the portal dedicated to the employees of the Group with a list of people who need support. These are usually the employees' families, but employees can also report any other persons.
Initially, this list was used to present people who can be supported by writing off one percent of the tax, however, over time, information about the possibilities of support in other forms was also placed there.

F) CHARITY RUNS

Every year, employees of the Group try to participate in charity sports events. The participation of employees in this type of events is financed by the Group.

The Charity runs have become a permanent element of the Group calendar: Wings For Life World Run, Company Run and Poland Business Run. Group employees took part in them also in 2018. The Eurocash Group's participation in the Company Run 2018 contributed to the transfer of a record amount of PLN 202 234 to the Everest Foundation's beneficiaries. Our employees are equally willing to engage in initiatives such as Color Run, cooperating with various charities.

G) BONE MARROW DONOR DAYS

For four years, Gama Stores together with the DKMS Foundation have been running annual: Bone Marrow Donor Days in Gama stores." In May 2015, the first action under the name "Gama against Leukemia" took place. 214 new donors were registered. With a very positive reception of shares by customers and a large involvement of store employees, the campaign entered a permanent schedule. In May 2016, the second "Bone marrow donor days" took place. This time, 453 new donors were registered and in May 2017 another ones were held - the third Bone marrow donors' day, which perfectly fit into the World Blood Cancer Day celebrated by DKMS. The DKMS database has been expanded by another 304 New Donors. In May 2018, the fourth "Bone marrow donors days" took place. This time, the Gama chain of stores has been awarded and covered by a special patronage as representatives of the World Blood Cancer Day celebrated in May. During the action, another 366 new donors were recruited. After four years, it can be safely said that a lot has been achieved together. More than 1,300 new donors were registered in the DKMS database during this period, of which two successful transplants were successfully executed.

H) ROAD SAFETY PROGRAM

The Gama chain of stores is carrying out the image-building campaign "Gamuś Bawi i Edukuje" under the slogan "Safety on the Road". Gamma's mascots visit children in kindergartens and using special educational elements such as signs, pedestrian crossings - they teach children how to behave on the road. We want to educate our little ones so that the outside world is as safe as possible. At the end of the meeting, Gamuś gives children painting - in which he teaches basic safety rules on the road in a simple and friendly way. In many kindergartens, local police officers also join our action.

I) RESPONSIBLE SALES OF ALCOHOL

One of the first actions to which Gama partner stores joined was a nationwide social program: "Tu się sprawdza dorosłość" - addressed to shop owners and sellers who have alcohol products in their offer. The main goal of the program was to reduce the availability of alcohol for minors. The stores that joined the program have thus committed themselves to reliable control of identity documents of young people and non-selling of alcohol to persons under 18 years of age. These types of educational campaigns are very important, they make sellers aware of their legal and moral responsibility. The conscious approach to alcohol trading is important from the point of view of the seller's relationship with the consumer.

6.7 EUROCASH.PL – INNOVATIVE BUSINESS TOOL FOR INDEPENDENT ENTREPRENEURS

In September 2018, Eurocash.pl had its premiere - the largest e-commerce platform for independent trade in Poland. It provides entrepreneurs with knowledge about the local market, demographic data, rankings of the best-selling products and preview of the competition's newsletters. Eurocash.pl has functionalities that allow you to effectively manage the store and make the right business decisions. Thanks to this simple and intuitive tool, independent retailers can compete effectively with large-format trade.
Its effectiveness includes, among other things, the fastest on the market, "learning" products search engine. In addition, retailers have access to smart shopping lists as well as can create their own lists. Eurocash.pl is also a knowledge base on the market. Data and analysis on the immediate surroundings of the store will allow entrepreneurs to make accurate purchasing decisions. The portal also collects information about products, market trends and many sales tips.

However, the greatest advantage of Eurocash.pl is its mobility. You can use it both using a computer as well as through a mobile application. It gives an amazing opportunity to remotely manage your retail business. And the whole platform features guarantee greater optimization of activities and thus more time that can be spent on rest or further business development.

6.8 GOOD PRACTICES IN BUSINESS

A) EQUAL IN BUSINESS RANKING

The Eurocash Group and the Polish Chamber of Commerce in 2017 initiated the project: Equal in Business Ranking. The ranking assesses the distribution and pricing strategies of the 10 largest producers in Poland in order to publicize and raise awareness of the problem of small format channel discrimination by some FMCG producers and promote good business practices. The aim of these activities is to reduce inequalities between local stores, discount stores and supermarkets.

The ranking is prepared by Eurocash Group analysts based on the data of the Nielsen research agency for one year preceding its preparation. Eurocash Group analysts compare the market results of the ten largest producers (by sales value). The producers of beer, water, carbonated beverages, juices and nectars, vodka and milk are evaluated. Each of them is awarded points in five areas: price, distribution, market share, contribution to growth and dedicated products. Each area is assigned the appropriate weight in the final result: the price of 20%, distribution 25%, market share 20%, contribution to the growth of 25% and dedicated products 10%. The final number of points the manufacturer receives is the weighted average of the results of all these indicators. The more points, the more balanced the strategy of a given producer and the higher place in the ranking.

The ranking is not only to distinguish good practices among suppliers, but above all to promote them among Polish entrepreneurs and people who care about supplying stores. The results are publicized among producers, in industry and general information media. The second edition of the ranking showed that several producers were able to change their sales strategies in one year to reach the top of the list. However, there is still a lot to do in this topic.

B) BUSINESS SUPPORT

Direct clients can count on individual support from experienced Eurocash Group employees. In particular, Franchisees are ensured the support of experienced Client Advisors, IT staff and Sales Representatives.
Clients have the ability to use a dedicated marketing strategy and promotional campaigns, encompassing promotional brochures, thematic catalogues, Own Brand Dobry Wybór! (Good Choice!) catalogues and loyalty programs.

C) BUSINESS RELATED CONTRACTS FOR CLIENTS

Eurocash Group negotiated a series of dedicated propositions for its direct clients, which are an optional supplement to the offers of franchise networks of the Eurocash Group. In the framework of this activity, the clients can utilize preferential conditions for the supply of, among others, energy, telecommunication services, cars, lighting and insurance policies.

D) COMMUNICATION AND DIALOGUE WITH CLIENTS

Clients have access to a series of tools used to communicate with the Eurocash Group, first and foremost via the internet: e-platforms, internal message boards, dedicated websites. The clients also have the possibility of contacting Eurocash by phone, e-mail and personal. Meeting with Eurocash Group managers are organized cyclically.

Workplace is one of the most interesting tools. Thanks to it, EC employees can communicate with Eurocash franchise Franchisees. All franchisees who log in to the service via the company's email delikatesy.pl have access to Workplace. Workplace gives you the opportunity to create special thematic groups, e.g. for regions, for Promotion, operations, events and more. EC employees may undertake a joint discussion with franchisees of Delikatesy Centrum. With Workplace you can also stream live events differently - an example of this may be the broadcast of Eurocash Skills Academy, which took place in September last year.

In order to tailor strategies to the ever-changing market environment, Eurocash Group conducts marketing research among its clients – most importantly satisfaction and loyalty level studies and Mystery Shopper studies in franchise stores.

D) COMPLAINTS AND DISPUTES RESOLUTION

Direct customers have the option of reporting complaints to a dedicated Customer Service Office which is responsible for providing information to the relevant department and finding a solution. At the same time, the Eurocash Group makes every effort to ensure that the delivered products are fresh and of the highest quality.

6.9 RESPONSIBLE PRODUCTS AND SERVICES

A) BIOLOVE

For customers who want to lead an ecological and healthy lifestyle, Kontigo network has created the brand of Biolove natural cosmetics. These products are made only from natural ingredients, do not contain SLS, PEG, silicones, parabens, dyes, preservatives and the like additives. Natural cosmetics are seen as expensive, but the Biolove brand has overturned all the myths on the subject, providing high quality at an affordable price. It is worth adding that all Biolove products are created in Poland.

B) ALL ABOUT ALOE

All About Aloe is a new cosmetics brand based on intensive care of aloe properties available in Kontigo. The products are distinguished by a simple composition, rich in valuable extracts of natural origin with deep moisturizing and nourishing effects. The brand's products do not contain harmful ingredients like silicones, parabens and SLS.

B) ABC ON WHEELS

Abc on wheels is a network of convenient, general grocery stores that regularly visit customers in the smallest towns. Regardless of the weather or the time of year, the ABC mobile stores on wheels reach places where there are usually no stationary outlets. Shoppers are often elderly people, living alone, less mobile - for them, a car-store is a comfortable form of supplying all products of everyday necessity.

In abc on wheels we take care that the range offered by us is of the best quality, while maintaining favorable prices. Shops are specialized vehicles adapted to transport food products equipped with refrigerators or freezers and meeting all standards of hygiene and food safety. The assortment offers all basic products such as dairy products, bread and sausages from local suppliers, as well as vegetables and fruits, sweets and drinks.

The network is actively involved in the life of the local community, for example by submitting the "Capuchinalia 2019" initiative as part of the project "Heroes of Polish Entrepreneurship". Thanks to the many votes cast, a family festival will be co-financed, the main purpose of which is to encourage families to spend time together.

Abc on wheels is also a chance for people from small towns to start their own business by becoming an abc on wheels representative. Business based on an agency agreement concluded with a strong and stable business partner, such as the Eurocash Group, is an attractive and flexible alternative for residents of small towns, where the labor market is often difficult and does not offer many career opportunities.

Indicators by own standard		Page
STRATEGY AND ANALYSIS		
G4-1	A statement by the top management about the importance of sustainable development for the organization and its strategy	4-5
ORGANIZATION PROFILE		
G4-3	The name of the organization	6
G4-4	Main brands, products and/or services	6-7
G4-5	Location of the organization's headquarters	8
G4-6	The number of countries in which the company operates	8
G4-7	Form of ownership and legal structure of the organization	13
G4-8	Supported markets with geographical coverage, sectors served, characteristics of customers/ consumers and beneficiaries	6-11
G4-9	The scale of the organization's activity	8-11

G4-10	Total number of employees by type of employment, type of employment contract and region and gender	**44**
G4-11	The percentage of employees covered by collective agreements	**not applicable**
G4-12	Supply chain/value characteristics	**39**
G4-13	Significant changes in the reporting period regarding the size, structure, ownership form or supply chain Not applicable	**not applicable**
G4-14	Explanation of whether and how the organization applies the precautionary principle	**31-32**
G4-15	External, accepted or supported by the organization economic, environmental and social declarations, principles and other initiatives	**65**
G4-16	Membership in associations (such as industry associations) and / or in national / international judicial organizations	**19**
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES		

G4-17	Organizational structure of the organization, with distinction of the main departments, subsidiaries, related entities and joint ventures with an explanation of which ones are not covered by the Report	**6-12**
G4-18	The process of defining report content and implementing reporting principles to define the content of the Report	**29-30**
G4-19	Significant aspects identified in the process of defining the content of the Report	**29**
G4-20	Scope and significance for each of the identified aspects within the organization	**29**
G4-21	Scope and significance for each of the identified aspects outside the organization	**29**
G4-22	Explanations regarding the effects of any corrections to information contained in previous reports, giving reasons for their introduction	**not applicable**
G4-23	Significant changes compared to the previous Report regarding the scope, range or methods of measurement used in the Report	**30**

STAKEHOLDER ENGAGEMENT		
G4-24	List of stakeholder groups engaged by the organization	**19-20**
G4-25	Basis for identification and selection of stakeholders	**19-20**
G4-26	An approach to engaging stakeholders, including the frequency of involvement by type and group of stakeholders	**19-20**
G4-27	Key issues and problems raised by stakeholders and the response from the organization, including by reporting them	**19-20**
REPORT PROFILE		
G4-28	Reporting period	**29**
G4-29	Date of publication of the last Report (if published)	**29**
G4-30	Reporting cycle (one-year, two-year, etc.)	**29**
G4-31	Contact person	**30**

G4-32	Table indicating the place where the indicators are placed in the Report	**82-89**
G4-33	Policy and internal practice in the field of external verification of the Report	**not applicable**
GOVERNANCE		
G4-34	The supervisory structure of the organization together with the committees subordinated to the highest supervisory body, responsible for individual tasks	**13-14**
ETHICS AND INTEGRITY		
G4-56	Values, principles, standards, principles of conduct of the organization, collected in codes of conduct and ethical codes	**16-18, 65**
ECONOMIC		
DMA	Management approach - Supporting independent grocery stores	**6**
G4-EC1	Direct economic value generated and distributed	**8**
G4-EC8	Significant indirect economic impacts,	**6,**

	including the extent of impacts	**8-9**
ENVIRONMENTAL		
DMA	Management approach - Environment	**31-32**
DMA	Management approach - Transport	**33**
G4-EN3	Energy consumption within the organization	**33**
G4-EN16	Direct greenhouse gas (GHG) emissions (Scope 1)	**33**
G4-EN23	Total weight of waste by type and disposal method	**36**
LABOUR PRACTICES AND DECENT WORK		
DMA	Management approach - Occupational Health and Safety	**45**
DMA	Management approach - Training and education	**49-50**
DMA	Management approach -	**64**

	Diversity and equal opportunity	
DMA	Management approach - Labor practices grievance mechanisms	**64**
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	**44**
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	**48, 61-63**
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	**45**
G4-LA9	Average hours of training per year per employee by gender, and by employee category	**49**
G4-LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	**52-54**

G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	**51**
HUMAN RIGHTS		
DMA	Management approach - Anti-corruption	**64-65**
PRODUCT RESPONSIBILITY		
DMA	Management approach - Customer health and safety	**39-40**

PART C

SELECTED CONSOLIDATED FINANCIAL DATA

FOR THE PERIOD FROM 1 JANUARY 2018 TO 31 DECEMBER 2018

KOMORNIKI, 15th March 2019

SELECTED CONSOLIDATED FINANCIAL DATA

	for the period from 01.01.2018 to 31.12.2018 PLN	for the period from 01.01.2017 to 31.12.2017 PLN	for the period from 01.01.2018 to 31.12.2018 EUR	for the period from 01.01.2017 to 31.12.2017 EUR
Sales	22 832 888 398	20 849 464 962	5 356 940 712	4 896 999 474
Operating profit (loss)	214 375 483	62 994 248	50 295 728	14 795 718
Profit (loss) before income tax	155 551 250	20 312 674	36 494 674	4 770 921
Profit (loss) for the on continued operations	111 652 270	(29 559 705)	26 195 310	(6 942 809)
Profit (loss) for the period	111 652 270	(29 559 705)	26 195 310	(6 942 809)
Net cash from operating activities	498 766 972	471 245 781	117 018 270	110 683 432
Net cash used in investing activities	(378 883 036)	(335 705 804)	(88 891 687)	(78 848 601)
Net cash used in financing activities	(125 925 433)	(94 810 732)	(29 544 010)	(22 268 586)
Net change in cash and cash equivalents	(6 041 496)	40 729 246	(1 417 426)	9 566 245
Weighted average number of shares	139 163 286	139 158 564	139 163 286	139 158 564
Weighted average diluted number of shares	139 163 286	139 158 564	139 163 286	139 158 564
EPS (in PLN / EUR)	0,79	(0,24)	0,18	(0,06)
Diluted EPS (in PLN / EUR)	0,79	(0,24)	0,18	(0,06)
Average PLN / EUR rate*			4,2623	4,2576

	as at 31.12.2018 PLN	as at 31.12.2017 PLN	as at 31.12.2018 EUR	as at 31.12.2017 EUR
Assets	6 010 906 273	5 979 922 099	1 397 885 180	1 433 724 640
Non-current liabilities	79 517 996	96 108 526	18 492 557	23 042 635
Current liabilities	4 894 979 758	4 853 808 173	1 138 367 386	1 163 731 610
Equity	1 036 408 519	1 030 005 400	241 025 237	246 950 394
Share capital	139 163 286	139 163 286	32 363 555	33 365 290
Number of shares	139 163 286	139 163 286	139 163 286	139 163 286
Diluted number of shares	142 069 536	142 069 536	142 069 536	142 069 536
Book value per share (in PLN / EUR)	7,01	6,94	1,63	1,66
Diluted book value per share (in PLN / EUR)	6,86	6,80	1,60	1,63
Dividends paid (in PLN / EUR)	105 899 719	111 277 151	24 627 842	26 679 410
Dividends paid per share (in PLN / EUR)	0,76	0,80	0,18	0,19
PLN / EUR rate at the end of the period**			4,3000	4,1709

* Profit and loss items and cash flow items calculated on basis at a weighted average rate announced by the National Bank of Poland for 2018,

** Balance sheet items and book value per share have been converted using the official mid-rates announced by the National Bank of Poland prevailing on the balance sheet date.

*** Dividend for 2017 year was paid till 6 June 2018 for shareholders of Parent Company as at 16 May 2018.

PART D

AUDITOR'S OPINION & REPORT

KOMORNIKI, 15th March 2019

Building a better working world

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1
00-124 Warszawa

+48 (0) 22 557 70 00
+48 (0) 22 557 70 01
www.ey.com/pl

INDEPENDENT AUDITOR'S REPORT ON THE AUDIT

To the Shareholders Meeting and Supervisory Board of Eurocash S.A.

Audit report on the annual consolidated financial statements

Opinion

We have audited the annual consolidated financial statements of Eurocash S.A. Group (the 'Group'), for which the holding company is Eurocash S.A. (the 'Company') located in Komorniki at Wiśniowa 11 containing: the general information, the consolidated income statement, the consolidated statement of comprehensive income for the period from 1 January 2018 to 31 December 2018, the consolidated statement of financial position as at 31 December 2018, the consolidated statement of cash flows and the consolidated statement of changes in equity for the period from 1 January 2018 to 31 December 2018 and the summary of significant accounting policies and other explanatory notes ('the accompanying consolidated financial statements').

In our opinion, the consolidated financial statements:

- give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the period from 1 January 2018 to 31 December2018 in accordance with required applicable rules of International Accounting Standards, International Financial Reporting Standards approved by the European Union and the adopted accounting policies,

- are in respect of the form and content in accordance with legal regulations governing the Group and the Company's Statute.

The opinion is consistent with the additional report to the Audit Committee issued on 15 March 2019.

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing in the version adopted as the National Auditing Standards by the National Council of Statutory Auditors ("NAS") and pursuant to the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (the 'Act on Statutory Auditors') and the Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (the 'Regulation 537/2014'). Our responsibilities under those standards are further described in the *'Auditor's responsibilities for the audit of the financial statements'* section of our report.

We are independent of the Group in accordance with the Code of ethics for professional accountants, published by the International Federation of Accountants (the 'Code of ethics'), adopted by the National Council of Statutory Auditors and other ethical responsibilities in accordance with required applicable rules of the audit of financial statements in Poland. We have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of ethics. While conducting the audit, the key certified auditor and the audit firm remained independent of the Group in accordance with the independence requirements set out in the Act on Statutory Auditors and the Regulation 537/2014.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. They include the most significant assessed risks of material misstatement, including the assessed risks of material misstatement due to fraud. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we have summarized our reaction to these risks and in cases where we deemed it necessary, we presented the most important observations related to these types of risks. We do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in our audit
Revenue recognition Eurocash Group presents in the consolidated financial statements revenues from sale in total amounting PLN 22 833 million. Companies from the Eurocash Group sell goods to multiple clients using several sales channels dispersed over business units within a couple operational segments. Revenue is measured taking into account discounts, incentives and rebates earned by customers. The revenue is one of the key performance	Our audit procedures included understanding of the Group's revenue recognition accounting policies and assessment of compliance with IFRS 15 Revenue from Contracts with Customers, including identification of the contracts with customers and performance obligations within, as well as allocation of the transaction price to those performance obligations. We also assessed the Group's internal controls over sale process, timing and measurement of revenue recognition.

indicators for the management. Due to the multitude and variety of contractual terms and markets that companies from the Group operate, the revenue recognition determinants such as estimation of discounts, incentives and rebates recognized based on sales, as well as assessment of potential returns, transfer of risks and rewards and determination whether the particular company from the Group acts as agent or principal - are considered to be complex. Taking into account also the scale of revenues we assessed that area as key audit matter. The relevant disclosures are set out in point 2.27 of the accounting principles "Sales revenues" and note 26 "Sales revenues in the accounting period" to the consolidated financial statements.	We performed test of controls for selected, identified controls. We analyzed transactions taking place before and after the balance sheet date as well as credit notes and corrections issued after the year end date for the determination of revenue recognition period. We also gained understanding and analyzed key terms and conditions of the agreements with customers to assess whether amounts recognized as revenues were accurate and recognized in the correct period. We performed test of details, related to selected revenues accounts. We also considered the adequacy of the Group's disclosures in respect of revenue.
Recognition of bonuses, discounts and related receivables Eurocash Group presents in the consolidated financial statements costs of sales in total amounting PLN 19 951 million. Companies from the Group receive various types of vendor allowances and price reductions. Those settlements are a significant component of cost of sales. Majority of them are settled during the financial year while as at 31 December 2018, the position not yet settled with vendors amounted to approximately PLN 492 million. Bonuses, discounts and related settlements were significant for our audit as recognition of the cost reductions and related settlements requires management's judgement, including the nature and level of the relevant company's obligations under the purchase contracts, estimates with	Our audit procedures included understanding of the Group's policies related to measurement of purchases and cost of sales and assessing compliance of those policies with applicable accounting standards. We also assessed the Group's internal controls over identification and measurement of contractually agreed obligations, and the allocation of them to inventory and cost of sales. We performed tests on transactions recorded during the year for contractual evidence on a sample basis. We also analyzed the amounts open to vendors at the balance sheet date, based on confirmations with vendors, recalculations made based on contractual terms reconciled to post year-end settlements, as well as cut-off tests for obligation fulfillment at the balance sheet date. Moreover, we evaluated reliability of management's estimates on the basis of retrospective review of the subsequent

respect to fulfillment of purchase and sales volumes at the balance sheet date, as well as allocation of the settlements between inventory and cost of sales. Taking into account the scale of those settlements and complexity of the estimates, we assessed that area as a key audit matter. The relevant disclosures are set out in point 2.18 of the accounting principles "Trade receivables and other short-term receivables" in point 2.24 of the accounting principles "Short-term liabilities", in note 14 "Trade and other receivables" and note 21 "Trade and other payables" to the consolidated financial statements.	collections of allowances recognized in prior reporting period. We also considered the adequacy of the Group's disclosures in respect of costs of sales and related settlements.
Impairment of goodwill and other intangible assets At 31 December 2018, the carrying value of goodwill and other intangible assets, including trademarks with indefinite useful life amounted to PLN 2 111 million and constituted 35% of the Group's total assets as of that date. The Group performed an impairment tests at 31 December 2018 of these assets based on the value in use estimation for identified relevant cash generating units to which goodwill and other intangible assets were allocated. Process of impairment assessment is complex and requires significant management judgement, in particular related to forecasted revenues, costs and cash flows, that depends on Group strategy future growth rates and discount rates, which are affected by expected future market and economic conditions. The assessment of impairment of goodwill and other intangible assets was significant	Our audit procedures included the understanding and evaluation of the impairment testing process, such as assessment of the management's allocation of the goodwill to an appropriate cash generating units not higher than segment, as well as assessment of assumptions and methodology used by the Group to arrive at estimates and verification of mathematical accuracy of the underlying calculations. Our procedures included: - analysis of arithmetic accuracy of discounted cash flows model calculations and the reconciliation of the source data to current financial forecasts and budgets, - assessment of key assumptions and estimates of the model for the assessment of value in use, including assumptions related to the future cash flows and residual values after the detailed forecast period, - the comparison of applied discount and growth rates to the market benchmarks

to our audit due to their magnitude for the consolidated financial statements and as it involves judgment in making the significant assumptions related to cash flows forecasts. The Group's disclosures about relevant goodwill and intangible assets are included in point 2.21 of the accounting principles "Impairment of assets" and note 7 "Impairment tests" to the consolidated financial statements.	with support of our internal valuation specialists, - testing the sensitivity of the recoverable amount in the available headroom of the model considering what change in assumptions could cause the carrying amount of the relevant cash generating unit to which goodwill or other intangible assets were assigned, to exceed its recoverable amount We have assessed the disclosures related to the impairment tests goodwill and other intangible assets, including disclosures on sensitivity analysis
Accounting for acquisition of Domelius Limited Group On 29 May 2018 Eurocash acquired 100% of shares in Domelius Limited, owner of Mila S.A., which is running a network of 187 grocery stores in Poland. The goodwill computed within this transaction, as the excess of the fair value of consideration transferred and net of the acquisition-date fair values of the identifiable assets acquired and the liabilities and contingent liabilities assumed, amounted to PLN 388 million. The management's judgments and estimates involved in accounting for the acquisition related to the identification and the determination of the fair value of the acquired assets, particularly in relation to assets not previously recognized by Domelius Limited, such as trademarks or client / franchisee relationships as well as determination of fair value of property, plant and equipment and the determination of their useful lives. We identified the matter as key audit matter due to the financial significance of	Our procedures included obtaining an understanding of the transaction and its rationale through discussions with Company's Management and analysis of shares purchase agreement. We inspected shares purchase agreement for any terms and conditions in relation to the acquisition which would give rise to deferred or contingent consideration and assessed whether the Group's determination of fair value of consideration transferred reflected such terms. Additionally our procedures included: - assessment of the valuation and accounting for the consideration payable and tracing payments to bank statements - discussion with the Company's Management on the methodology of purchase settlement, including the completeness of identification of the intangible assets such as trademarks and their valuation at fair value as well as property, plant and equipment acquired, as well as use of the management's specialist in the valuation

the transaction and due to complexity of management judgments and assumptions involved in the identification, recognition and measurement of the acquired assets and assumed liabilities as well as contingent liabilities. The Group's disclosure of the acquisition of Domelius Limited is set out in note 1 "Purchase of shares in subsidiaries" to the consolidated financial statements.	- for the trademarks: assessment of the fair value of the Mila brand recognized based on the applicable methods of valuation, for which we were supported by our internal valuation specialist - for acquired tangible assets: assessment of the fair value of those assets at the purchase date and the appropriateness of the useful lives assigned to the property, plant and equipment.; we also compared the periods of economic useful life for purchased property, plant and equipment to the rates applied for similar assets in the Group - assessment of the management's allocation of the goodwill to an appropriate cash generating units not higher than segment - assessment of adequacy of the disclosures with the requirements set forth in IFRS 3 Business Combinations.
Uncertain tax positions Companies from Eurocash Group take part in multiple transactions which may be subject to audit by tax authorities. Those include related-party transactions, such as purchase/ sale of trade goods, restructuring within the Eurocash Group, purchase of shares and intangible assets like goodwill and trademarks. Effective from 15 July 2016, General Anti-Avoidance Rule (GAAR) was introduced to the polish tax law. GAAR is intended to prevent the creation and use of artificial legal arrangements to avoid payment of tax in Poland and is effective also with respect to transactions performed following its entry into force as well as transactions that were carried out before, but the benefits are being achieved after the date of its entry into force. Implementation of the above provisions results in increased scrutiny of tax authorities in relation to tax	We gained our understanding of the process of preparation of the tax settlements by the companies from the Group and the related accounting policy, and evaluated the identification of key tax issues related to the activity of the companies from the Group. We have also gained understanding of the rationale for the Management's judgements made in relation to the uncertain tax positions, including reports of independent tax advisors. In particular, we evaluated the management's assessment of uncertainty over tax treatments, for which relevant interpretations, rulings and decisions, income tax practices, tax authorities examinations results are taken into consideration. We obtained explanations from management and evidence including communication with tax authorities, relevant calculations and copies of external tax advice reports. We used our tax specialist to assist us in the evaluation of the Management's judgments in the light of the tax

settlements, in particular in relation to group's restructurings and reorganizations, contributions etc. Due to complexity of the tax regulations the process interpretation of settlements between related parties is complicated and requires assumptions and judgements. Taking this into account, the interpretation taken by external authorities (including tax authorities), may differ from interpretation assumed by Company's Management. In the current and previous reporting period, tax inspections and proceedings, including VAT and CIT, were initiated or lasted regarding the Company; the values associated with these tax audits are significant. Uncertainty of tax positions is related also to the complexity of the Eurocash S.A. Capital Group's legal structure and changing tax environment in which the Company and other companies from the Eurocash Group operate. Assessment of those uncertainties is complex and requires significant Management judgement in determining the corporate income tax and other tax provisions. Changes in assumptions of the positions that may be taken by tax authorities, can materially impact the level of tax liabilities included in the consolidated financial statements. The Group's disclosure about uncertain tax positions are included in point 2.31 of the accounting principles "Uncertainties related to tax settlements" and note 24 "Income tax" to the consolidated financial statements.	law as well as current practice and legal interpretations. We assessed the management's assumptions related to the determination of the liabilities and provisions recorded in the consolidated financial statements or the rationale for the lack of recognition of liabilities, by obtaining written responses of the external tax advisors on the material tax exposures addressed to the Company. We also assessed disclosures related to the tax settlements, including uncertain tax positions in the consolidated financial statements. We assessed the disclosures related to the tax settlements, as well as Group's uncertain tax positions.

Responsibilities of the Company's Management and members of the Supervisory Board for the financial statements

The Company's Management is responsible for the preparation, based on properly maintained accounting records, the consolidated financial statements that give a true and fair view of the consolidated financial position and the consolidated financial performance in accordance with required applicable rules of International Accounting Standards, International Financial Reporting Standards approved by the European Union, the adopted accounting policies, other applicable laws, as well as the Company's Statute, and is also responsible for such internal control as determined is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, The Company's Management is responsible for assessing the Group's (the holding company and significant components') ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless The Company's Management either intends to liquidate the Group (the holding company or significant components) or to cease operations, or has no realistic alternative but to do so.

The Company's Management and the members of the Company's Supervisory Board are required to ensure that the consolidated financial statements meet the requirements of the Accounting Act dated 29 September 1994 (the 'Accounting Act'). The members of the Company's Supervisory Board are responsible for overseeing the Company's financial reporting process.

Auditor's responsibility for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not guarantee that an audit conducted in accordance with NAS will always detect material misstatement when it exists. Misstatements may arise as a result of fraud or error and are considered material if it can reasonably be expected that individually or in the aggregate, they could influence the economic decisions of the users taken on the basis of these consolidated financial statements.

In accordance with International Auditing Standard 320, section 5, the concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the consolidated financial statements and in forming the opinion in the auditor's report. Hence all auditor's assertions and statements contained in the auditor's report are made with the contemplation of the qualitative and quantitative materiality levels established in accordance with auditing standards and auditor's professional judgment.

The scope of the audit does not include assurance on the future profitability of the Group nor effectiveness of conducting business matters now and in the future by the Company's Management.

Throughout the audit in accordance with NAS, we exercise professional judgment and maintain professional skepticism and we also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or override of internal control,

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control,

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company's Management,

- conclude on the appropriateness of the Company's Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report, however, future events or conditions may cause the Group to cease to continue as a going concern,

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation,

- we obtain sufficient appropriate audit evidence regarding the financial information of entities and business activities within the Group for the purpose of expressing an opinion on the consolidated financial statements. We are solely responsible for the direction, supervision and performance of the audit of the Group and we remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other information, including the Directors' Report

The other information comprises the Directors' Report for the period from 1 January 2018 to 31 December 2018, the representation on the corporate governance.

Responsibilities of the Company's Management and members of the Supervisory Board

The Company's Management is responsible for the preparation the Other Information in accordance with the law.

The Company's Management and members of the Company's Supervisory Board are required to ensure that the Directors' Report (with separate elements) meets the requirements of the Accounting Act.

Auditor's responsibility

Our opinion on the consolidated financial statements does not include the Other Information.
In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Other information, we are required to report that fact in our independent auditor's report. Our responsibility in accordance with the Act on Statutory Auditors is also to issue an opinion on whether the Directors' Report was prepared in accordance with relevant laws and that it is consistent with the information contained in the consolidated financial statements.

In addition, we are required to inform whether the Company has prepared the representation on non-financial information and to issue an opinion on whether the Company has included the required information in the representation on application of corporate governance.

Opinion on the Directors' Report

Based on the work performed during our audit, in our opinion, the Directors' Report:

- has been prepared in accordance with the article 49 of the Accounting Act and paragraph 71 of the Decree of the Minister of Finance dated 29 March 2018 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (the 'Decree on current and periodic information'),

- is consistent with the information contained in the consolidated financial statements.

Moreover, based on our knowledge of the Group and its environment obtained during our audit, we have not identified material misstatements in the Directors' Report.

Opinion on the corporate governance application representation

In our opinion, in the representation on application of corporate governance, the Group has included information stipulated in paragraph 70, section 6, point 5 of the Decree on current and periodic information

Moreover, in our opinion, the information stipulated in paragraph 70, section 6, point 5 letter c-f, h and i of the Decree included in the representation on application of corporate governance is in accordance with applicable laws and information included in the consolidated financial statements.

Information on non-financial information

In accordance with the requirements of the Act on Statutory Auditors, we inform that the Company has included in Directors' Report information on the preparation of a separate report on non-financial information, referred to in art. 55 par. 2c of the Accounting Act and that the Company has prepared such a separate report.

We have not performed any attestation procedures in respect to the separate report on non-financial information and do not express any assurance in its respect.

Representation on the provision of non-audit services

To the best of our knowledge and belief, we represent that services other than audits of the financial statements, which have been provided to the Group, are compliant with the laws and regulations applicable in Poland, and that we have not provided non-audit services, which are prohibited based on article 5 item 1 of Regulation 537/2014 and article 136 of the Act on Statutory Auditors. The non-audit services, which we have provided to the Group in the audited period, have been disclosed in the Directors' Report.

Appointment of the audit firm

We were appointed for the audit of the Group's consolidated financial statements initially based on the resolution of Supervisory Board from 25 April 2017 and reappointed based on the resolution from 25 April 2018. The consolidated financial statements of the Group have been audited by us uninterruptedly starting from the financial year ended on 31 December 2017, i.e. for the past two consecutive years.

Warsaw, 15 March 2019

Key Certified Auditor

Robert Klimacki
certified auditor
no in the register: 90055

on behalf of:
Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1, 00-124 Warsaw
no on the audit firms list: 130

PART E

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD FROM 1 JANUARY 2018 TO 31 DECEMBER 2018

KOMORNIKI, 15th March 2019

CONTENTS

GENERAL INFORMATION

1. INFORMATION ABOUT THE PARENT ENTITY

NAME

EUROCASH Spółka Akcyjna (Parent Entity)

REGISTERED OFFICE

ul. Wiśniowa 11, 62-052 Komorniki

CORE BUSINESS

Non-specialized wholesale trade
(PKD 4690Z)

REGISTRATION COURT

District Court Poznań - Nowe Miasto and Wilda in Poznań, VIII Commercial Department of the National Court Register, KRS 0000213765

PERIOD FOR WHICH THE GROUP WAS ESTABLISHED

The duration of the parent company and entities comprising the Capital Group is indefinite

PERIOD COVERED BY THE FINANCIAL STATEMENTS

The reporting period started 1 January 2018 and ended 31 December 2018 and comparative period is the period from 1 January 2017 to 31 December 2017.
Consolidated statement of financial position has been prepared as at 31 December 2018, and the comparative figures are presented as at 31 December 2017.

2. BOARD OF THE PARENT ENTITY

2.1. MANAGEMENT BOARD OF THE PARENT ENTITY

As at 31 December 2018 the Parent Entity's Management Board consisted of the following members:

Luis Manuel Conceicao do Amaral – President of the Management Board,
Rui Amaral – Member of the Management Board,
Arnaldo Guerreiro – Member of the Management Board,
Pedro Martinho – Member of the Management Board,
Katarzyna Kopaczewska – Member of the Management Board,
Jacek Owczarek – Member of the Management Board,
Przemysław Ciaś – Member of the Management Board.

2.2. SUPERVISORY BOARD

As at 31 December 2018 the Parent Entity's Supervisory Board consisted of the following members:

João Borges de Assunção – President of the Supervisory Board,
Francisco José Valente Hipólito dos Santos – Member of the Supervisory Board,
Hans Joachim Körber – Member of the Supervisory Board,
Jacek Szwajcowski – Member of the Supervisory Board,
Alicja Kornasiewicz – Member of the Supervisory Board.

2.3. CHANGES IN THE MANAGEMENT AND SUPERVISORY BOARD

On 22 March 2018, the Supervisory Board of Parent Entity took a resolution of appointing Mr. Paweł Musiał as a Member of the Management Board on 1 April 2018.
On 25 April 2018, with effect on the day of making the statement, Mr. Eduardo Aguinaga de Moraes resigned from the position of a Member of the Supervisory Board of the Parent Entity.
On 25 April 2018, Ms. Alicja Kornasiewicz was appointed as a Member of the Supervisory Board of the Parent Entity.
On 26 July 2018, Mr. Paweł Musiał resigned from the function of Member of the Management Board with effect on 31 July 2018.

CONSOLIDATED INCOME STATEMENT FOR THE PERIOD FROM 01.01 TO 31.12.2018

	Note	for the period from 01.01.2018 to 31.12.2018	for the period from 01.01.2017 to 31.12.2017 *restated**
Sales		**22 832 888 398**	**20 849 464 962**
Sales of goods	26	22 680 894 721	20 713 003 600
Sales of services	26	147 571 330	131 558 391
Sales of materials	26	4 422 347	4 902 971
Costs of sales		**(19 951 009 127)**	**(18 384 147 701)**
Costs of goods sold *		(19 947 588 994)	(18 379 966 634)
Costs of materials sold		(3 420 133)	(4 181 067)
Gross profit (loss)		**2 881 879 272**	**2 465 317 261**
Selling expenses	27	(2 346 015 922)	(1 945 594 470)
General and administrative expenses	27	(388 933 521)	(373 488 948)
Profit (loss) on sales		**146 929 828**	**146 233 843**
Other operating income	28	134 285 628	75 180 146
Other operating expenses	28	(66 839 973)	(158 419 741)
Operating profit (loss)		**214 375 483**	**62 994 248**
Financial income	29	35 915 044	29 035 301
Financial costs	29	(89 856 973)	(66 969 577)
Share in profits (losses) of equity accounted investees		(4 882 304)	(4 747 298)
Profit (loss) before tax		**155 551 250**	**20 312 674**
Income tax expense	24	(43 898 979)	(49 872 379)
Profit (loss) for the period		**111 652 270**	**(29 559 705)**
Attributable to:			
Owners of the Company		109 644 174	(33 311 574)
Non-controlling interests		2 008 096	3 751 869

EARNINGS PER SHARE

		PLN / share	PLN / share
Profit (loss) attributable to Owners of the Company		109 644 174	(33 311 574)
Weighted average number of shares	30	139 163 286	139 158 564
Weighted average diluted number of shares	30	139 163 286	139 158 564
Earnings per share			
- basic		0,79	(0,24)
- diluted		0,79	(0,24)

* Note 3

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 01.01 TO 31.12.2018

	for the period from 01.01.2018 to 31.12.2018	for the period from 01.01.2017 to 31.12.2017
Profit (loss) for the period	**111 652 270**	**(29 559 705)**
Other comprehensive income for the period	(1 154 653)	(173 072)
Items that may be subsequently reclassified to profit or loss:		
- The result on hedge accounting with the tax effect:	(1 154 653)	(173 072)
Total comprehensive income for the period	**110 497 618**	**(29 732 777)**
Total Income		
Owners of the Company	108 489 521	(33 484 646)
Non-controlling interests	2 008 096	3 751 869
Total comprehensive income for the period	**110 497 618**	**(29 732 777)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31.12.2018

Assets	Note	as at 31.12.2018	as at 31.12.2017
Non-current assets (long-term)		**3 006 009 506**	**2 526 965 574**
Goodwill	5	1 783 646 478	1 401 336 787
Intangible assets	5	327 745 237	347 086 180
Property, plant and equipment	6	790 197 116	678 989 707
Investment property	8	957 103	972 799
Investments in equity accounted investees	9	27 533 591	32 415 896
Other long-term investments	10	3 621 425	30 784 656
Long-term receivables	11	20 497 785	7 156 243
Deferred tax assets	25	50 465 787	26 316 764
Other long-term prepayments	12	1 344 982	1 906 541
Current assets (short-term)		**3 004 896 767**	**3 452 956 525**
Inventories	13	1 292 001 606	1 320 254 214
Trade receivables	14	1 343 421 596	1 682 841 291
Current tax receivables	14	1 370 241	11 584 927
Other short-term receivables	14	133 224 204	143 072 942
Other short-term financial assets	15	-	50 434 740
Short-term prepayments	16	38 320 268	42 168 063
Cash and cash equivalents	17	196 558 852	202 600 349
Total assets		**6 010 906 273**	**5 979 922 099**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31.12.2018

Equity and liabilities		as at 31.12.2018	as at 31.12.2017
Equity		**1 036 408 519**	**1 030 005 400**
Equity attributable to Owners of the Company		**975 037 874**	**966 333 484**
Share capital	18	139 163 286	139 163 286
Reserve capital		1 381 000 766	1 460 760 315
Loss on valuation of hedging transactions		(7 638 430)	(6 483 777)
Option for purchase/selling the shares		(57 363 613)	(54 712 448)
Retained earnings		(480 124 135)	(572 393 893)
Accumulated profit / loss from previous years		(589 768 309)	(539 082 319)
Profit (loss) for the period		109 644 174	(33 311 574)
Non-controlling interests		61 370 645	63 671 916
Liabilities		**4 974 497 754**	**4 949 916 699**
Non-current liabilities		**79 517 996**	**96 108 526**
Long-term financial liabilities	23	3 003 350	4 932 920
Other long-term liabilities	21	63 940 083	58 148 822
Deferred tax liabilities	25	5 954 698	25 430 471
Employee benefits	20	5 676 727	6 484 166
Provisions	20	943 138	1 112 147
Current liabilities		**4 894 979 758**	**4 853 808 173**
Loans and borrowings	22	542 754 634	317 781 175
Short-term financial liabilities	23	32 754 903	249 437 574
Trade payables	21	3 813 380 430	3 940 899 244
Current tax liabilities	21	55 191 844	7 717 339
Other short-term payables	21	110 656 630	93 693 875
Current employee benefits	20	111 240 638	102 599 975
Provisions	20	229 000 679	141 678 990
Total equity and liabilities		**6 010 906 273**	**5 979 922 099**

BOOK VALUE PER SHARE

	as at 31.12.2018	as at 31.12.2017
Equity attributable to Owners of the Company	**975 037 874**	**966 333 484**
Number of shares	139 163 286	139 163 286
Diluted number of shares	142 069 536	142 069 536
Book value per share	**7,01**	**6,94**
Diluted book value per share	**6,86**	**6,80**

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 01.01 TO 31.12.2018

	for the period from 01.01.2018 to 31.12.2018	for the period from 01.01.2017 to 31.12.2017
Cash flow from operating activities		
Profit (loss) before tax	**155 551 250**	**20 312 674**
Adjustments for:	**215 745 221**	**234 781 900**
Depreciation and amortization	204 236 151	183 317 313
Share in profits (losses) of equity accounted investees	4 882 304	4 747 298
Valuation of motivational programm	5 880 000	3 920 000
Gain (loss) on sale of property, plant and equipment	8 502 672	(1 632 733)
Result on the sale of shares - subsidiaries	(74 774 054)	-
Dividends received	(597 821)	(882 010)
Interest expenses	76 809 520	49 665 754
Interest received	(9 193 551)	(4 353 722)
Operating cash before changes in working capital	**371 296 471**	**255 094 574**
Changes in inventory	141 040 618	(163 262 983)
Changes in receivables	321 865 841	55 672 730
Changes in payables	(287 407 665)	354 695 373
Changes in provisions and employee benefits	34 839 914	19 222 193
Other adjustments	(0)	336 479
Operating cash	**581 635 179**	**521 758 366**
Interest received	3 456 622	2 086 644
Interest paid	(49 004 436)	(24 198 479)
Income tax paid	(37 320 392)	(28 400 750)
Net cash from operating activities	**498 766 972**	**471 245 781**
Cash flow from investing activities		
Aquisition of intangible assets	(31 580 902)	(42 934 408)
Proceeds from sale of intangible assets, property, plant and equipment	-	160 210
Aquisition of property, plant and equipment tangible fixed assets	(147 539 152)	(162 286 204)
Proceeds from sale of property, plant and equipment	8 253 482	42 403 978
Income from the sale of shares - subsidiaries	83 290 399	-
Income/expenses on other short-term financial assets	42 771 273	(50 062 551)
Dividends received	597 821	882 010
Aquisition of subsidiaries, net of cash aquired	(340 087 385)	(92 695 643)
Expenditures on the acquisition of subsidiares	-	(2 211 457)
Loans granted	-	(30 201 983)
Interest received	5 411 427	1 240 244
Net cash used in investing activities	**(378 883 036)**	**(335 705 804)**
Cash flow from financing activities		
Proceeds from issue of share capital	-	2 543 150
Income/expenses for other financial liabilities	1 741 224	(4 663 046)
Income/expenses for short term debt securities	(219 533 443)	58 533 443
Proceeds from loans and borrowings	225 537 255	44 242 906
Repayment of borrowings	(699 055)	(59 356 440)
Income/expenses for liabilities from financial leasing	(5 735 454)	(7 139 597)
Other interests	(3 703 506)	(5 435 064)
Interests on loans and borrowings	(17 632 736)	(12 258 933)
Dividends paid	(105 899 719)	(111 277 151)
Net cash used in financing activities	**(125 925 433)**	**(94 810 732)**
Net change in cash and cash equivalents	**(6 041 496)**	**40 729 246**
Cash and cash equivalents at the beginning of the period	202 600 349	161 871 103
Cash and cash equivalents at the end of the period	**196 558 853**	**202 600 349**

CONSOLIDATED STATEMENT ON CHANGES IN EQUITY FOR THE PERIOD FROM 01.01 TO 31.12.2018

	Share capital *	Reserve capital	Option for purchase/selling the shares	Hedge reserve	Retained earnings	Equity attributable to Owners of the Company	Non-controlling interests	Total
Changes in equity in the period from 01.01 to 31.12.2017								
Balance as at 01.01.2017 after changes	139 096 361	1 352 632 597	(69 189 100)	(6 310 705)	(330 578 771)	1 085 650 382	69 453 273	1 155 103 655
Total comprehensive income for the reporting period attributable								
Owners of the Company	-	-	-	-	(33 311 574)	**(33 311 574)**	-	**(33 311 574)**
Non-controlling interests	-	-	-	-	-	-	3 751 869	**3 751 869**
Net profit presented directly in equity	-	-	-	(173 072)	-	**(173 072)**	-	**(173 072)**
Total comprehensive income for the period from 01.01. to 31.12.2017	-	-	-	**(173 072)**	**(33 311 574)**	**(33 484 646)**	**3 751 869**	**(29 732 777)**
Dividends paid	-	-	-	-	(101 589 199)	**(101 589 199)**	(9 687 952)	**(111 277 151)**
Transfer to reserve capital	-	101 731 493	-	-	(101 731 493)	-	-	-
Equity-settled share-based payment transactions		3 920 000	-	-	-	**3 920 000**	-	**3 920 000**
Share options excercised	66 925	2 476 225	-	-	-	**2 543 150**	-	**2 543 150**
Settlement of acquisition and sale of shares	-	-	-	-		-	(60 117)	**(60 117)**
Other	-	-	14 476 652	-	(5 182 856)	**9 293 796**	214 843	**9 508 639**
Total contributions by and distributions to Owners of the Company	**66 925**	**108 127 717**	**14 476 652**	-	**(208 503 548)**	**(85 832 253)**	**(9 533 226)**	**(95 365 479)**
Balance as at 31.12.2017	**139 163 286**	**1 460 760 315**	**(54 712 448)**	**(6 483 777)**	**(572 393 893)**	**966 333 483**	**63 671 916**	**1 030 005 400**
Changes in equity in the period from 01.01 to 31.12.2018								
Balance as at 01.01.2018	**139 163 286**	**1 460 760 315**	**(54 712 448)**	**(6 483 777)**	**(572 393 893)**	**966 333 484**	**63 671 916**	1 030 005 400
Total comprehensive income for the reporting period attributable								
Owners of the Company	-	-	-	-	109 644 174	**109 644 174**	-	**109 644 174**
Non-controlling interests	-	-	-	-	-	-	2 008 096	**2 008 096**
Other comprehensive income	-	-	-	(1 154 653)	-	**(1 154 653)**	-	**(1 154 653)**
Total comprehensive income for the period from 01.01. to 31.12.2018	-	-	-	**(1 154 653)**	**109 644 174**	**108 489 521**	**2 008 096**	**110 497 618**
Dividends paid	-	(101 589 199)	-	-	-	**(101 589 199)**	(4 310 520)	**(105 899 719)**
Transfer to reserve capital	-	15 949 649	-	-	(15 949 649)	-		-
Equity-settled share-based payment transactions **	-	5 880 000	-	-	-	**5 880 000**	-	**5 880 000**
Option for purchase/selling the shares	-	-	(2 651 165)	-	-	**(2 651 165)**	-	**(2 651 165)**
Other	-	-	-	-	(1 424 768)	**(1 424 768)**	1 152	**(1 423 616)**
Total contributions by and distributions to Owners of the Company	-	**(79 759 550)**	**(2 651 165)**	-	**(17 374 417)**	**(99 785 132)**	**(4 309 368)**	**(104 094 500)**
Balance as at 31.12.2018	139 163 286	1 381 000 766	(57 363 613)	(7 638 430)	(480 124 135)	975 037 874	61 370 645	1 036 408 519

* Note 18

** Note 19

SUPPLEMENTARY INFORMATION TO THE CONSOLIDATED FINANCIAL STATEMENTS PREPARED FOR THE PERIOD FROM 01.01 TO 31.12.2018

1. GENERAL INFORMATION

1.1. ISSUE OF THE CONSOLIDATED FINANCIAL STATEMENTS

According to the resolution of the Management Board dated 15 March 2019 the consolidated financial statements of Eurocash S.A. Group for the period from 1 January 2018 to 31 December 2018 were authorized for issue by the management Board.

According to the information included in the report no. 1/2019 dated 10 January 2019 sent to the Polish Financial Supervision Authority, Eurocash S.A. issues its consolidated financial statements on 18 March 2019.

Eurocash S.A. is a listed company and its shares are publicly traded.

1.2. STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union ("EU IFRSs").

1.3. IMPACT OF NEW STANDARDS AND INTERPRETATIONS ON THE FINANCIAL STATEMENTS OF THE GROUP

The Group applied for the first time IFRS 15 Revenue from contracts with customers ("IFRS 15") and IFRS 9 Financial Instruments ("IFRS 9"). Other new or changed standards and interpretations that apply for the first time in 2018 have no material impact on the Group's financial statements.

Implementation of IFRS 9

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement and is effective for annual periods beginning on January 1, 2018 or later. IFRS 9 addresses three areas related to financial instruments: classification and measurement, impairment and hedge accounting.

The Group has applied IFRS 9 from the effective date of the standard, without transforming the comparative data.

Classification and valuation

The classification and measurement of the Group's financial assets in accordance with IFRS 9 is as follows:

- debt instruments measured at amortized cost, maintained for obtaining cash flows arising from the contract, being only repayment of the principal and interest on the principal remaining to be repaid. This category includes trade receivables, loans, cash and cash equivalents,
- debt instruments measured at fair value through other comprehensive income, for which accumulated profits or losses previously recognized in other comprehensive income are reclassified to the profit or loss at the moment of cessation of recognition. This category includes loans that arise from financing needs in the Capital Group, maintained both to receive cash flows under the agreement and for the purpose of selling financial assets,
- capital instruments measured at fair value through other comprehensive income, for which accumulated profits or losses previously recognized in other comprehensive income are not reclassified to the profit or loss at the moment of discontinuation of recognition. This category includes shares in other entities and

all types of options and warrants purchased, for which the Group made an irrevocable selection in respect of the valuation at the time of the initial recognition or as at the date of the first application of IFRS 9,

- financial assets at fair value through profit or loss include shares of other entities that do not meet the criteria for measurement at amortized cost or at fair value through other comprehensive income.

IFRS 9 does not introduce significant changes in the classification and measurement of financial liabilities in the Group.

Impairment

In the case of trade receivables, the Group applies a simplified approach and measures the write-down for expected credit losses in the amount equal to expected credit losses over the whole life using the reserve matrix. The Group uses its historical data on credit losses, adjusted, where applicable, for the impact of future information.

The Group assesses the probability of payment of receivables by counterparties from the beginning of their creation. If the receivables whose repayment by buyers is threatened or whose enforcement may cause difficulties are disclosed, they are updated by making a write-down in the profit and loss account.

Hedge accounting

The Group has not decided to apply IFRS 9 in the area of hedge accounting

Implementation of IFRS 15

IFRS 15 supersedes IAS 11 Construction contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a “Five-step model” to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers.

The Group adopted IFRS 15 using the full retrospective method of adoption, i.e. with reclassification of comparative period.

The Group operates in the area of sales of goods. If the contract contains only one obligation to perform the service - sale of the goods, the revenue is recognized at a specific moment, i.e. when the customer obtains control over the goods (at the time of delivery). Consequently, the impact of adopting IFRS 15 at the moment of recognizing revenue from such contracts is not material. In accordance with IFRS 15, if the remuneration specified in the contract includes a variable amount, the entity estimates the amount of remuneration to which it will be entitled in exchange for the transfer of promised goods or services to the client and includes part or all of the variable remuneration only to the transaction price in that scope, in which there is a high probability that there will be no reversal of a significant part of the amount of previously recognized cumulative revenues when the uncertainty about the amount of variable remuneration has ended.

The impact of IFRS 15 for classification of financial data was presented in the Note 3.

Implementation of IFRS 16

In January 2016, the International Accounting Standards Board issued International Financial Reporting Standard 16 Leasing ("IFRS 16"), which replaced IAS 17 Leasing, IFRIC 4 Determining whether the contract includes leasing, SKI 15 Operating leases - special promotional offers and SKI 27 Substance assessment transactions using the form of leasing. IFRS 16 sets out the accounting principles for leasing in terms of valuation, presentation and disclosure.

IFRS 16 introduces a single model of the lessees accounting and requires the lessee to recognize assets and liabilities resulting from each lease with a period exceeding 12 months, unless the underlying asset is of low value. On the date of the commencement, the lessee recognizes an asset component due to the right of use of the underlying asset and a lease liability that reflects his obligation to make lease payments.

The lessee separately recognizes depreciation of the asset component under the right of use and interest on the lease liability.

The lessee updates the valuation of the lease liability after the occurrence of certain events (eg changes in the leasing period, changes in future lease payments resulting from the change in the index or the rate used to determine these charges). In principle, the lessee recognizes the revaluation of the lease liability as an adjustment to the asset's value due to the right of use.

The Group is a lessee, mainly in the case of lease agreements for rental and means of transport.

Lessor accounting in accordance with IFRS 16 remains substantially unchanged from current accounting in accordance with IAS 17. A lessor will continue to recognize all lease agreements using the same classification principles as in IAS 17, distinguishing between operating leases and financial leasing.

IFRS 16 requires wider disclosures from both the lessee and the lessor than in the case of IAS 17.

The lessee has the right to choose a full or modified retrospective approach, and the transitional provisions provide for some practical solutions.

IFRS 16 is effective for annual periods beginning on January 1, 2019 and later. Earlier application is permitted for entities that apply IFRS 15 from or before the first application of IFRS 16. The Group has not decided to apply IFRS 16 earlier.

The Group plans to implement IFRS 16 using a modified retrospective method.

In summary, the Group expects the impact of the implementation of IFRS 16 to be as follows:

Assets	as at 31.12.2018	Impact of IFRS 16	as at 31.12.2018
Non-current assets (long-term)	**3 006 009 506**	**1 801 660 265**	**4 807 669 771**
Property, plant and equipment	790 197 116	1 801 660 265	2 591 857 388
Current assets (short-term)	**3 004 896 767**	**-**	**3 004 896 767**
Total assets	**6 010 906 273**	**1 801 660 265**	**7 812 566 538**
Equity and liabilities			
Equity	**1 036 408 519**	**-**	**1 036 408 519**
Liabilities	**4 974 497 754**	**1 801 660 265**	**6 776 158 019**
Non-current liabilities	**79 517 996**	**1 534 843 698**	**1 537 847 071**
Long-term financial liabilities	3 003 350	1 534 843 698	1 537 847 071
Current liabilities	**4 894 979 758**	**266 816 567**	**299 571 493**
Short-term financial liabilities	32 754 903	266 816 567	299 571 493
Total equity and liabilities	**6 010 906 273**	**1 801 660 265**	**7 812 566 538**

The analysis of the Group's agreements in terms of IFRS 16 began by determining which contracts meet the definition of a lease. Lease liabilities are recognized at the value of discounted future payments during the lease term and the asset due to the right of use - in the same amount corrected by the amount of any prepayments or calculated lease payments recognized in the statement of financial position immediately before the date of first application. Lease payments are discounted using the lesser interest rate of the lessee on the date of the first application, determined for individual leasing portfolios depending on their period and the type of the asset being leased.
The date of start of the leasing period is the date on which the lessor makes the asset available for use by the lessee. The leasing period includes the irrevocable period during which the lessee is entitled to use, along with optional periods, when the Group may with reasonable assurance assume that it will exercise the option of extending or will not use the option of termination. In the case of establishing periods of contracts concluded for an indefinite period, the Group applied the criterion of sufficient certainty and took into account all relevant facts and circumstances, including business plans.
The Group has benefited from the exemption regarding short-term leases.

Other

- IFRS 14 Regulatory Deferral Accounts (issued on 30 January 2014) – The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard– effective for financial years beginning on or after 1 January 2016;
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture (issued on 11 September 2014) - the endorsement process of these Amendments has been postponed by EU - the effective date was deferred indefinitely by IASB;
- IFRS 16 Leases (issued on 13 January 2016) - effective for financial years beginning on or after 1 January 2019;

- IFRS 17 Insurance Contracts (issued on 18 May 2017) - effective for financial years beginning on or after 1 January 2021;
- IFRIC 23 Uncertainty over Income Tax Treatments (issued on 7 June 2017) - effective for financial years beginning on or after 1 January 2019;
- Amendments to IFRS 9: Prepayment Features with Negative Compensation (issued on 12 October 2017) - effective for financial years beginning on or after 1 January 2019;
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (issued on 12 October 2017) – effective for financial years beginning on or after 1 January 2019;
- Annual Improvements to IFRS Standards 2015-2017 Cycle (issued on 12 December 2017) – effective for financial years beginning on or after 1 January 2019;
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (issued on 7 February 2018) – effective for financial years beginning on or after 1 January 2019;
- Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018) - effective for financial years beginning on or after 1 January 2020;
- Amendment to IFRS 3 Business Combinations (issued on 22 October 2018) - effective for financial years beginning on or after 1 January 2020;
- Amendments to IAS 1 and IAS 8: Definition of Material (issued on 31 October 2018) – effective for financial years beginning on or after 1 January 2020.

The effective dates are dates provided by the International Accounting Standards Board. Effective dates in the European Union may differ from the effective dates provided in standards and are published when the standards are endorsed by the European Union.

1.4. FUNCTIONAL AND PRESENTATION CURRENCY, ROUNDINGS

These consolidated financial statements are presented in PLN, which is the Parent Entity's functional and presentation currency. All financial information presented in PLN has been rounded to the nearest PLN (unless it is otherwise indicated).

1.5. USE OF ESTIMATES AND JUDGEMENTS

The preparation of the consolidated financial statements in conformity with UE IFRSs 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 underlying assumptions are made based on historical experience and other factors accepted as reasonable in given circumstances, and the results of estimates and judgements are a basis for the determination of the carrying value of assets and liabilities not resulting directly from other sources. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The most significant estimates are related to allocation of the acquisition price of the companies, impairment of assets and reserves, which are described in Note 3,7, 9, 20.

The company identifies control over entities in which it holds fifty or fewer shares on the basis of the analysis performed in accordance with IFRS 10, and on the basis of subscriptions arising from investment agreements.

The Eurocash Group uses many financial instruments, including contracts for financing the supply chain (reverse factoring) in relation to its trade liabilities. Taking into account the potential impact of this type of agreements on the cash flow statement and the statement of financial position, the Group analyzes the content of such agreements on a case-by-case basis. In particular, the Management Board assesses whether the supplier financing program does not incur significant costs related to this program or significant changes in payment dates and future cash flows. In the case of significant modifications of terms of repayment of trade liabilities, the Group makes appropriate changes to the classification and recognizes liabilities covered by factoring as separate debt financing.

1.6. COMPARABILITY OF FINANCIAL STATEMENTS

The accounting principles (policies) used to prepare these financial statements are similar to those used in the preparation of the Group's financial statements for the year ended 31 December 2017, except for rules related to the introduction of new standards, as described in note 1.3.

1.7. INFORMATION ABOUT THE PARENT ENTITY, THE CAPITAL GROUP, THE ASSOCIATES AND JOINT VENTURE

Eurocash S.A. is a Parent Entity, registered in the District Court Poznań - Nowe Miasto and Wilda in Poznań, VIII Commercial Department of the National Court Register; registration number: 00000213765; located in Komorniki, ul. Wiśniowa 11.

The main business activity of the Parent Entity is non-specialized wholesale trade (PKD 4690Z).

Shares of Eurocash S.A. are traded on Warsaw Stock Exchange.

Entities comprising the Eurocash capital group and associates as at 31.12.2018

No	1	2	3	4	5	6	7	8
Unit	Eurocash S.A.	Eurocash Serw is Sp. z o.o.	Eurocash Franczyza Sp. z o.o.	Eurocash Trade 1 Sp. z o.o.	Eurocash Trade 2 Sp. z o.o.	Premium Distributors Sp. z o.o.	Przedsiębiorstw o Handlu Spożyw czego Sp. z o.o.	DEF Sp. z o.o.
address	ul .Wiśniow a 11 62-052 Komorniki	ul .Wiśniow a 11 62-052 Komorniki	ul .Wiśniow a 11 62-052 Komorniki	ul .Wiśniow a 11 62-052 Komorniki	ul .Wiśniow a 11 62-052 Komorniki	ul. Bokserska 66a 02-690 Warszaw a	ul .Wiśniow a 11 62-052 Komorniki	ul. Handlow a 6 15-399 Białystok
core of activity	PKD 4690Z	PKD 4635Z	PKD 8299Z	PKD 4634A	PKD 4634A	PKD 4634A	PKD 4690Z	PKD 4639Z
registration court	District Court Poznań - Now e Miasto i Wilda of Poznań, VIII Commercial Division of the National Court Register KRS 0000213765	District Court Poznań - Now e Miasto i Wilda of Poznań, VIII Commercial Division of the National Court Register KRS 0000519553	District Court Poznań - Now e Miasto i Wilda of Poznań, VIII Commercial Division of the National Court Register KRS 0000259846	District Court Poznań - Now e Miasto i Wilda of Poznań, VIII Commercial Division of the National Court Register KRS 0000329002	District Court Poznań - Now e Miasto i Wilda of Poznań, VIII Commercial Division of the National Court Register KRS 0000329037	District Court Warszaw a, XIII Commercial Division of the National Court Register KRS 0000287947	District Court Zielona Góra, VIII Commercial Division of the National Court Register KRS 0000203619	District Court Białystok, XII Commercial Division of the National Court Register KRS 0000048125
nature of relationship	Parent company	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary
applied consolidation method	Full	Full	Full	Full	Full	Full	Full	Full
date of aquisition	n/a	31.03.2006	10.07.2006	06.04.2009	06.04.2009	02.08.2010	02.08.2010	21.12.2011
ow nership interest	n/a	75,00%	100,00%	100,00%	100,00%	100,00%	100,00%	100%
voting rights (in %)	n/a	75,00%	100,00%	100,00%	100,00%	100,00%	100,00%	100%

Entities comprising the Eurocash capital group and associates as at 31.12.2018 (continued)

No	9	10	11	12	13	14	15	16
Unit	Detal Podlasie Sp. z o.o.	Lewiatan Podlasie Sp. z o.o.	Euro Sklep S.A.	Ambra Sp. z o.o.	Lewiatan Śląsk Sp. z o.o.	Lewiatan Orbita Sp. z o.o.	Lewiatan Kujawy Sp. z o.o.	Lewiatan Wielkopolska Sp. z o.o.
address	ul. Sokólska 9 15-865 Białystok	Porosły 70A 16-070 Choroszcz	ul. Bystrzańska 94a 43-309 Bielsko-Biała	ul. Hutnicza 7 43-502 Czechowice-Dziedzice	ul. Lenartowicza 39 41-219 Sosnowiec	ul. Lubelska 33/15 10-410 Olsztyn	ul. Polna 4-8 87-800 Włocławek	Os. Winiary 54 60-665 Poznań
core of activity	PKD 4711Z	PKD 7010Z	PKD 4711Z	PKD 4645Z	PKD 7022Z	PKD 4690Z	PKD 4711Z	PKD 7740Z
registration court	District Court Białystok, XII Commercial Division of the National Court Register KRS 0000033766	District Court Białystok, XII Commercial Division of the National Court Register KRS 0000508176	District Court Bielsko Biała, VIII Commercial Division of the National Court Register KRS 0000012291	District Court Katowice-Wschód, VIII Commercial Division of the National Court Register KRS 0000254307	District Court Katowice-Wschód, VIII Commercial Division of the National Court Register KRS 0000175768	District Court Olsztyn, VIII Commercial Division of the National Court Register KRS 0000039244	District Court Toruń, VII Commercial Division of the National Court Register KRS 0000109502	District Court Poznań - Nowe Miasto i Wilda, VIII Commercial Division of the National Court Register KRS 0000133384
nature of relationship	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary
applied consolidation method	Full	Full	Full	Full	Full	Full	Full	Full
date of aquisition	21.12.2011	18.03.2014	21.12.2011	21.12.2011	21.12.2011	21.12.2011	21.12.2011	21.12.2011
ownership interest	100%	100%	100%	100%	100%	100%	100%	100,00%
voting rights (in %)	100%	100%	100%	100%	100%	100%	100%	100,00%

Entities comprising the Eurocash capital group and associates as at 31.12.2018 (continued)

No	17	18	19	20	21	22	23	24
Unit	Lewiatan Opole Sp. z o.o.	Lewiatan Zachód Sp. z o.o.	Lewiatan Podkarpacie Sp. z o.o.	Lewiatan Holding S.A.	Lewiatan Północ Sp. z o.o.	Eurocash Detal Sp. z o.o.	Eurocash Convenience Sp. z o.o.	Kontigo Sp. z o.o.
address	ul. Światowida 2 45-325 Opole	ul. Przemysłowa 5 73-110 Stargard Szczeciński	ul. Krakowska 47 39-200 Dębica	ul. Kilińskiego 10 87-800 Włocławek	ul. I Dywizji Wojska Polskiego nr 98 84-230 Rumia	ul .Wiśniowa 11 62-052 Komorniki	ul .Wiśniowa 11 62-052 Komorniki	ul .Wiśniowa 11 62-052 Komorniki
core of activity	PKD 7740Z	PKD 6419Z	PKD 8299Z	PKD 7740Z	PKD 4639Z	PKD 4690Z	PKD 7010Z	PKD 7010Z
registration court	District Court Opole, VIII Commercial Division of the National Court Register KRS 0000043199	District Court Szczecin Centrum, XIII Commercial Division of the National Court Register KRS 0000017136	District Court Rzeszów, XII Commercial Division of the National Court Register KRS 0000186622	District Court Toruń, VII Commercial Division of the National Court Register KRS 0000089450	District Court Gdańsk-North in Gdańsk, VII Commercial Division of the National Court Register KRS 0000322297	District Court Poznań - Nowe Miasto i Wilda in Poznań, VIII Commercial Division of the National Court Register, KRS 0000499437	District Court Poznań - Nowe Miasto i Wilda in Poznań, VIII Commercial Division of the National Court Register KRS 0000509266	District Court Poznań - Nowe Miasto i Wilda in Poznań, VIII Commercial Division of the National Court Register KRS 0000510241
nature of relationship	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary
applied consolidation method	Full	Full	Full	Full	Full	Full	Full	Full
date of aquisition	21.12.2011	21.12.2011	28.06.2013	21.12.2011	21.12.2011	18.11.2013	05.03.2014	17.04.2014
ownership interest	100%	100%	100%	67%	100%	100%	100%	100%
voting rights (in %)	100%	100%	100%	71%	100%	100%	100%	100%

Entities comprising the Eurocash capital group and associates as at 31.12.2018 (continued)

No	25	26	27	28	29	30	31	32
Unit	Inmedio Sp. z o.o.	Eurocash VC3 Sp. z o.o.	ABC na kołach Sp. z o.o.	Duży Ben Sp. z o.o.	Firma Rogala Sp. z o.o.	4Vapers Sp. z o.o.	Eurocash Nieruchomości Sp. z o.o.	Eurocash Food Sp. z o.o.
address	ul. Al.Jerozolimskie 174 02-486 Warszawa	ul. Taśmowa 7 02-677 Warszawa	ul. Wiśniowa 11 62-052 Komorniki	ul. Wiśniowa 11 62-052 Komorniki	ul. Grunwaldzka 59 38-350 Bobowa	ul. Wiśniowa 11 62-052 Komorniki	ul. Wiśniowa 11 62-052 Komorniki	ul. Wiśniowa 11 62-052 Komorniki
core of activity	PKD 4617Z	PKD 7740Z	PKD 5621Z	PKD 4711Z	PKD 4711Z	PKD 4635Z	PKD 7022Z	PKD 7022Z
registration court	District Court Warszawa, XII Commercial Division of the National Court Register KRS 0000525507	District Court Warszawa, XIII Commercial Division of the National Court Register KRS 0000560795	District Court Poznań - Nowe Miasto i Wilda in Poznań, VIII Commercial Division of the National Court Register KRS 0000586936	District Court Poznań - Nowe Miasto i Wilda in Poznań, VIII Commercial Division of the National Court Register KRS 0000577163	District Court Kraków - Śródmieście in Kraków, XII Commercial Division of the National Court Register KRS 0000576321	District Court Poznań - Nowe Miasto i Wilda in Poznań, VIII Commercial Division of the National Court Register KRS 0000625487	District Court Poznań - Nowe Miasto i Wilda in Poznań, VIII Commercial Division of the National Court Register KRS 0000567562	District Court Warszawa, XII Commercial Division of the National Court Register KRS 0000605658
nature of relationship	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary
applied consolidation method	Full	Full	Full	Full	Full	Full	Full	Full
date of aquisition	01.12.2014	11.05.2015	29.12.2015	22.07.2015	29.01.2016	20.06.2016	04.05.2015	04.05.2015
ownership interest	51%	100%	100%	100%	50%	100%	100,00%	100%
voting rights (in %)	51%	100%	100%	100%	50%	100%	100,00%	100%

Entities comprising the Eurocash capital group and associates as at 31.12.2018 (continued)

No	33	34	35	36	37	38	39	40
Unit	Sushi to go Sp. z o.o.	Sushi 2 go Sp. z o.o.	Detal Finanse Sp. z o.o.	Polska Dystrybucja Alkoholi Sp. z o.o.	Zagłoba Sp. z o.o. w likwidacji	ECA Detal Sp. z o.o.	FHC-2 Sp. z o.o.	Madas Sp. z o.o.
address	ul. Piękna 24/26A 00-549 Warszawa	ul. Ks.Juliana Chrościckiego 93/105 02-414 Warszawa	ul. Wiśniowa 11 62-052 Komorniki	ul. Hubla 40,Wola Zaradzyńska 95-054 Ksawerów	ul. Stara Huta 7 32-500 Chrzanów	ul. Sempołowskiej 4 95-200 Pabianice	Ul Tysiąclecia 1 38-400 Krosno	Ul Tysiąclecia 1 38-400 Krosno
core of activity	PKD 1013Z	PKD 8299Z	PKD 6920Z	PKD 4634A	PKD 4634A	PKD 4725Z	PKD 4711Z	PKD 4711Z
registration court	District Court Warszawa, XII Commercial Division of the National Court Register KRS 0000492021	District Court Warszawa, XIII Commercial Division of the National Court Register KRS 0000584888	District Court Poznań - Nowe Miasto i Wilda in Poznań, VIII Commercial Division of the National Court Register KRS 0000618542	District Court Łódź - Śródmieście in Łódź, XX Commercial Division of the National Court Register KRS 0000124474	District Court Kraków - Śródmieście in Kraków, XII Commercial Division of the National Court Register KRS 0000105078	District Court Łódź - Śródmieście in Łódź, XX Division of the National Court Register KRS 0000293684	District Court Rzeszów, XII Commercial Division of National Court Register KRS 0000241137	District Court Rzeszów, XII Commercial Division of National Court Register KRS 0000243880
nature of relationship	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary
applied consolidation method	Full	Full	Full	Full	Full	Full	Full	Full
date of aquisition	22.06.2016	22.06.2016	15.03.2016	30.12.2016	30.12.2016	30.12.2016	16.12.2016	16.12.2016
ownership interest	51%	74%	100%	100%	66%	100%	50%	50%
voting rights (in %)	51%	74%	100%	100%	66%	100%	50%	50%

Entities comprising the Eurocash capital group and associates as at 31.12.2018 (continued)

No	41	42	43	44	45	46	47	48
Unit	Eko Holding S.A.	Ledi Sp. z o.o.	Jim Sp. z o.o.	Foodmakers Logistics Sp, z o.o.	Akademia Umiejętności Eurocash Sp. z o.o.	EC VC7 Sp. z o.o.	Cerville Investments Sp. z o.o.	Mila S.A.
address	ul. R. Chomicza 13C Nowa Wieś Wrocławska 55-080 Kąty Wrocławskie	ul. R. Chomicza 13C Nowa Wieś Wrocławska 55-080 Kąty Wrocławskie	ul. R. Chomicza 13C Nowa Wieś Wrocławska 55-080 Kąty Wrocławskie	Al. Niepodległości 31 61-714 Poznań	ul .Wiśniowa 11 62-052 Komorniki	ul. Wiśniowa 11 62-052 Komorniki	ul. Czerniowieckiej 2B 02.705 Warszawa	ul. Świętokrzyska 22 88-100 Inowrocław
core of activity	PKD 4690Z	PKD 4711Z	PKD 7830Z	PKD 5210B	PKD 8559B	PKD 4690Z	PKD 4110Z	PKD 4711Z
registration court	District Court Wrocław - Fabryczna in Wrocław, IX Division of the National Court Register KRS 0000302877	District Court Wrocław - Fabryczna in Wrocław, IX Division of the National Court Register KRS 0000116761	District Court Wrocław - Fabryczna in Wrocław, IX Division of the National Court Register KRS 0000370167	District Court Poznań - Nowe Miasto i Wilda in Poznań, VIII Commercial Division of the National Court Register KRS 0000670394	District Court Poznań - Nowe Miasto i Wilda in Poznań, VIII Commercial Division of the National Court Register KRS 0000666485	District Court Poznań - Nowe Miasto i Wilda in Poznań, VIII Commercial Division of the National Court Register KRS 0000666652	District Court Warszawa, XIII Commercial Division of the National Court Register KRS 0000495219	District Court Poznań - Nowe Miasto i Wilda in Poznań, VIII Commercial Division of the National Court Register KRS 0000644111
nature of relationship	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	#ADR!	#ADR!	Subsidiary
applied consolidation method	Full	Full	Full	Full	Full	Full	Full	Full
date of aquisition	04.01.2017	04.01.2017	04.01.2017	01.02.2017	18.01.2017	18.01.2017	13.12.2017	29.05.2018
ownership interest	100%	100%	100%	50%	100%	100%	100%	100%
voting rights (in %)	100%	100%	100%	50%	100%	100%	100%	100%

Entities comprising the Eurocash capital group and associates as at 31.12.2018 (continued)

No	49	50	51	52	53	54
Unit	Investpol 700 Mila spółka akcyjna sp.j.	Mila Holding S.A.	"Koja-Mila Spółka Akcyjna" Sp. j.	Domelius Limited	ABC Sp. z o.o.	Groszek Sp. z o.o.
address	ul. Świętokrzyska 22 88-100 Inowrocław	ul. Świętokrzyska 22 88-100 Inowrocław	os. Na Stoku 1 31-701 Kraków	43 Demostheni Severi Avenue Nicosia, 1080 Cyprus	ul .Wiśniowa 11 62-052 Komorniki	ul .Wiśniowa 11 62-052 Komorniki
core of activity	PKD 6820Z	PKD 6420Z	PKD 6831Z	-	PKD 7490Z	PKD 7490Z
registration court	District Court Bydgoszcz, VIII Commercial Division of the National Court Register KRS 0000550561	District Court Poznań - Nowe Miasto i Wilda in Poznań, VIII Commercial Division of the National Court Register KRS 0000666862	District Court Kraków - Śródmieście in Kraków , XI Commercial Division of the National Court Register KRS 0000303300	Company under Cypriot law	District Court Poznań - Nowe Miasto i Wilda in Poznań, VIII Commercial Division of the National Court Register KRS 0000746077	District Court Poznań - Nowe Miasto i Wilda in Poznań, VIII Commercial Division of the National Court Register KRS 0000745820
nature of relationship	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary
applied consolidation method	Full	Full	Full	Full	Full	Full
date of aquisition	29.05.2018	29.05.2018	29.05.2018	29.05.2018	18.07.2018	18.07.2018
ownership interest	100%	100%	100%	100%	100%	100%
voting rights (in %)	100%	100%	100%	100%	100%	100%

In addition, Inmedio Sp. z o.o. has subsidiary Inmedio Sp. z o.o. Sp. k., in which Inmedio Sp. z o.o. (as a general partner) holds 99.9999% of shares and Eurocash Franczyza Sp. z o.o. (as a limited partner) holds 0.0001% of shares.

On 29.05.2018 Eurocash purchased 100% of shares in Domelius Limited with its registered office in Nikosia, so that took the control over Domelius and its subsidiaries, that are: Mila Holding S.A., Mila S.A.,Investpol 700 Mila spółka akcyjna spółka jawna and „Koja-Mila spółka akcyjna" spółka jawna

On 18.07.2018 Eurocash S.A. created entities ABC Sp. z o.o. and Groszek Sp. z o.o.

On 19.12.2018 Eurocash S.A. sold 100% of shares in entity PayUp Polska S.A.

Entities comprising the Eurocash capital group and associates as at 31.12.2018

No Unit	1 FRISCO S.A.	2 Partnerski Serwis Detaliczny S.A.
address	ul. Omulewska 27 04-128 Warszawa	ul. Grażyny 15 02-548 Warszawa
core of activity	PKD 4791Z	PKD 6499Z
registration court	District Court Warszawa, XIII Commercial Division of the National Court Register KRS 0000401344	District Court Warszawa, XIII Commercial Division of the National Court Register KRS 0000280288
nature of relationship	Associate	Joint venture
method of ownership	Equity method	Equity method
ownership interest	44,03%	50%
voting rights (in %)	44,03%	50%

1.8. GOING CONCERN ASSUMPTION

The financial statements were prepared under the assumption that the Group will continue to operate as a going concern for the foreseeable future. As at the date of approval of these financial statements, there are no circumstances indicating a threat to the Group companies continuing as a going concern, as described in details in note 35.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1. ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for the following items:

- derivative financial instruments measured at fair value,
- financial instruments at fair value through profit or loss measured at fair value,
- available-for-sale financial assets measured at fair value.

The most significant accounting policies applied by Eurocash S.A. Group are presented in points 2.2-2.36.

2.2. REPORTING PERIOD

The Group's reporting period is a calendar year.

2.3. FORMAT AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

In particular, the consolidated financial statements are comprised of:

- General information
- Consolidated income statement
- Consolidated statement of comprehensive income
- Consolidated statement of financial position
- Consolidated statement of cash flows
- Consolidated statement of changes in equity
- Supplementary information to the consolidated financial statements, including a summary of significant accounting policies and other explanatory notes.

2.4. BASIS OF CONSOLIDATION

Subsidiaries

Due to IFRS 10, subsidiaries are entities controlled by the Group.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Investments in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognised initially at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees (after adjustments to align the accounting policies with those of the Group) from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Jointly controlled companies

Jointly controlled companies are presented according to IFRS 11 and recognized as joint operations or joint ventures, according to the actual rights and obligations of joint controllers. A joint operation is a joint contractual arrangement in which the parties exercising joint control over the arrangement have rights to assets and obligations concerning liabilities related to the arrangement. These parties are referred to as joint operators.

A joint venture is a joint contractual arrangement in which the parties exercising joint control over the arrangement have rights to net assets arising out of the arrangement. These parties are referred to as joint venturers. A joint venturer presents their share in a joint venture as an investment, and such investment is accounted for according to the equity method, as per IAS 28.

Costs of business acquisition

The costs of business acquisition are valued as the sum of the fair values at the date of exchange of given assets, incurred or assumed liabilities and equity instruments issued by the acquirer with regard to the business acquisition. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Acquisition date

The day on which the Group obtains actual control of the acquire is the acquisition date. When such acquisition is executed in a way of a single exchange transaction, the date of exchange is the same date as the acquisition date.

In a business combination achieved in stages:

- the cost of the business acquisition is the total cost of all transactions, and
- the exchange date is the date of each exchange transaction (i.e. the day on which each particular investment is included in the financial statements of the Parent Entity), whereas the acquisition date is the date on which the Group obtains control over the acquired entity.

Sale of subsidiaries

The result on the sale of subsidiaries is presented by the Group in the income statement in operating activity and in the cash flow statement in investment activitiy.

Transactions eliminated on consolidation

As of the acquisition date the carrying value of the Group's investments in subsidiaries is eliminated on consolidation with that part of the subsidiaries' equity which corresponds with the Group's held interest equity.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Allocation of the business acquisition costs

At the acquisition date the Parent Entity recognizes costs of the business acquisition, including identifiable assets, liabilities and contingent liabilities of the acquiree, according to their fair value as at this day, with the exception to non-current assets (or the group of assets to be abandoned) classified as "held for sale", which are measured at their fair value less costs to sale.

The Parent Entity recognises separately identifiable assets, liabilities and contingent liabilities at the acquisition date only if they meet the following criteria at that date:

- when an asset is not an intangible asset, an inflow of all future economic benefits related to that asset is probable and its fair value can be reliably measured;
- when a liability is not a contingent liability, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and its fair value can be reliably measured;
- fair value of an intangible asset or a contingent liability can be reliably measured.

Goodwill

As at the acquisition date, the acquirer:

- recognizes goodwill acquired during the business combination as an asset item,

and

- initially measures goodwill at its acquisition cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Subsequently to the initial recognition, the acquirer measures the goodwill acquired in the business combination at its acquisition cost less accumulated impairment losses.

If the Group's interest in net fair value of identifiable assets, liabilities and contingent liabilities exceeds the acquisition cost, the Group:

- reassess all of the assets acquired, all of the liabilities assumed and the consideration transferred,

and then:

- recognizes the remaining gain in the profit or loss.

The Group may adjust the provisional amounts recognized at the acquisition date during the 12 months period.

2.5. FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are translated to the functional currency of Group entities (PLN) at exchange rates at the dates of the transactions.
Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the average exchange rate of the National Polish Bank at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the average exchange rate of the National Polish Bank at the end of the reporting period.

The rates below have been adopted for the balance sheet valuation:

	31.12.2018	*31.12.2017*
EUR	4,3000	4,1709

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at average exchange rate of the National Polish Bank at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

2.6. INTANGIBLE ASSETS

Definition

Intangible assets include property rights acquired by the Group, with an anticipated economic useful life exceeding one year, intended to be used by the Group itself, in particular:

- Goodwill,
- Software licences,
- Copyrights,
- Concessions, patents, utility and decorative designs and trademarks,
- Know-how,
- Customer relations,
- Other intangible assets.

Initial measurement of intangible assets

The initial value of intangible assets is the acquisition cost, which includes the purchase price and other expenditure directly attributable to acquiring the intangible assets.

Subsequent expenditure

Subsequent expenditure on components of intangible assets is capitalized only when it increases the future economic benefits associated with the item. Other costs including expenditures on internally generated intangible assets such as: trademarks, goodwill and brands are recognized in profit or loss as incurred.

Amortization

Amortization of intangible assets is calculated for all intangible assets, excluding goodwill and intangible assets with an indefinite useful life. While determining the useful life, the period of generating economic benefits in taken into consideration. If it is hard to determine the reasonable economic useful time or there is no certainty of any expected measurable benefits, the Group recognize the intangible assets in profit or loss for the period.

The following amortization rates are adopted for intangible assets:

▪licenses – software	33,3%
▪copyrights	20%
▪trademarks	5% - 10%
▪know-how	10%
▪relations with customers	5%
▪other intangible assets	20%

The Group considers “Eurocash” and “abc” trademarks as recognizable on the market and intends to use them for a long time. According to these assumptions the Group states that the economic useful life of the above mentioned trademarks is indefinite and they are not amortized. The “Eurocash” and “abc” trademarks are subject to impairment testing each year.

Review of amortization rates and possible impairment

Amortization rates adopted for intangible assets are subject to review at least at each annual reporting date causing respective adjustment of future amortization.

The Group assesses at least at each reporting date whether there is any indication that an asset may be impaired. Impairment losses are recognized in other operating expenses in the period they occurred.

The Group tests annually such intangible assets for impairment by comparing the carrying value of the specified item with its recoverable amount, regardless of any impairment indication.

Measurement of intangible assets at the reporting date

At the reporting date the Group measures the intangible assets at the acquisition cost less accumulated amortization and any accumulated impairment losses.

2.7. PROPERTY, PLANT AND EQUIPMENT

Definition

Property, plant and equipment include tangible assets held by the Group for economical use (useful and intended to be used by the Group), the expected useful lives of which exceed one year.

Property, plant and equipment shall include in particular:

- Land

- Buildings and constructions,
- Right of perpetual usufruct of land,
- Technical equipment and machinery,
- Vehicles,
- Other tangible fixed assets (furniture etc.),
- Fixed assets under construction.

The initial measurement of tangible fixed assets

The initial value of tangible fixed assets is the acquisition cost comprising purchase price including the amount due to seller (excluding deductible VAT and excise tax) and, in case of import, additional public charges.

The acquisition cost includes expenditures directly attributable to the acquisition of the assets and any other costs directly attributable to bringing the assets to a working condition for their intended use, including transport, loading, discharging, storage and market introduction costs, minus rebates, discounts, and other similar price reductions and refunds. When determination of the acquisition cost of an asset is impossible, in particular when the asset is received free of charge or donated, its value shall be determined on the basis of the selling price of an identical or similar item i.e. its fair value.

The manufacturing cost of fixed assets under construction includes all expenditures incurred from the date the construction, assembly, adaptation or improvement commenced until the reporting date or the day of the bringing the asset into use, plus:

- non-deductible VAT and excise duty,
- costs of obligations incurred for financing of the asset together with the exchange rate differences, decreased by the revenues obtained,
- if required – the estimation of the costs of dismantling and removing the items and restoring the site on which they are located.

Subsequent expenditure

Subsequent expenditures on replacing parts of an item of property, plant and equipment are capitalized and increase the initially recognized cost of an asset. Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the part will flow to the Group and its cost can be measured reliably. The carrying amount of the removed parts of assets is derecognized. Expenditures on the day-to-day maintenance of property, plant and equipment are recognized as a gain or loss for the period in which they were incurred.

Each component of property, plant and equipment items whose acquisition price is material in comparison with the purchase price of the entire item is depreciated separately

Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value. Tangible fixed assets, excluding lands and fixed assets under construction, are depreciated monthly for the period of economic useful life, using a straight-line method and following depreciation rates:

▪buildings and constructions	2,5% - 4,5%
▪investments in third parties' property, plant and equipment	10%
▪technical equipment and machinery	10% - 60%
▪vehicles	14% - 20%
▪other tangible fixed assets	20%

Depreciation commences in the month in which the asset was brought into use.

Gain or loss on disposal, liquidation or usage cessation of an item of property, plant and equipment are determined as the difference between the proceeds from disposal and the carrying amount of the assets, and are recognized net in profit and loss.

Review of depreciation rates and possible impairment

Depreciation rates are subject to analysis at the end of each financial year causing respective adjustment of future depreciation.

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. Impairment losses are charged into other operating expenses in the period the impairment loss was determined. Impairment occurs when no future economic benefits are expected to flow to the Group from the asset e.g. in case of liquidation or usage cessation of the asset. Impairment losses are charged into other operating expenses not later than at the reporting date, in the period the impairment loss was determined.

Measurement of property, plant and equipment at the reporting date

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

Tangible fixed assets under construction are presented in the financial statements at cost of manufacturing less impairment losses. The cost of manufacturing includes charges and borrowing costs activated in accordance with accounting policy, specified in the point 2.8.

The stocktaking of tangible fixed assets

The stocktaking of tangible fixed assets is performed every four years.

2.8. BORROWING COSTS

Borrowing costs that are directly attributable to acquiring or manufacturing the qualifying assets shall be capitalized on relevant assets until the date of bringing them into use. These costs are diminished by gains resulted from temporary investment of funds obtained for manufacturing the specified asset.

Borrowing costs include interest and other cost incurred by the Group due to borrowing funds.

Any other borrowing costs are recognized in profit or loss in the period they have occurred.

2.9. LEASE CONTRACTS

The finance lease takes place if the lease contract transfers substantially all the risks and rewards of ownership of the asset to the lessee.

Any other kinds of lease contracts are treated as operating leases.

Assets used on the basis of finance lease contracts are qualified in the same way as the Group’s assets. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Lease payments should be split into capital and interest components so as to produce a constant periodic rate of interest on the remaining balance of the finance lease liability.

Outstanding lease payments are recognized in the statement of financial position as financial liabilities divided into short- and long-term parts.

Depreciation methods applied for leased assets are consistent with the accounting policies applied for the Group’s owned assets, specified in the points 2.6 and 2.7. If there is no reasonable assurance that the lessee will obtain ownership of the asset by the end of the lease term, the asset is depreciated over a shorter of the following periods: duration of the lease contract or economic useful life of the asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.
Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease contract when the adjustment is confirmed.

If the Group uses the assets on the basis of operating lease contract, the asset is not recognized in the financial statements and lease payments are recognized as an expense in profit or loss for the period.

2.10. INVESTMENT PROPERTY

Investment property comprises property held in order to earn rentals or derive economic benefits resulting from capital appreciation.
Investment property is initially measured at its manufacturing or acquisition costs after taking into account transaction costs. At the reporting date investment property is measured at acquisition or manufacturing cost less accumulated depreciation and any accumulated impairment losses in accordance with accounting policies applied for tangible fixed assets.

2.11. SHARES IN ASSOCIATES AND ENTITIES UNDER COMMON CONTROL

Shares are valued at the purchase price. In the case of impairment, no later than at the end of the reporting period, the value of shares is decreased by a write-off expressing the impairment.
When determining the useful value, the Company takes into account the cash flows generated by the respective assets and liabilities held by associates and entities under common control.

2.12. LONG-TERM RECEIVABLES

Long-term receivables include receivables whose repayment date will be longer than one year from the end of the reporting period.
This part of long-term receivables that is to be repaid within one year from the end of the reporting period is presented in short-term receivables.
Long-term receivables consist mainly of pre-paid deposits, which relate to long-term lease agreements for locations, and security of bank guarantees and security for the purchase of non-current assets.

2.13. LONG-TERM PREPAYMENTS

At each reporting date the analysis is made of long-term prepayments.
The valuation is made by the Company, taking into consideration the rational factors and the knowledge of the individual components of the prepayments.
Long-term prepayments include, the following items:

- Rentals,
- IT licenses,
- Alcohol permissions.

2.14. NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

The Group classifies a non-current asset or disposal group comprising assets and liabilities as held for sale when its carrying amount will be recovered principally through a sale transaction rather than through its continuing use.
This situation takes place if following conditions are fulfilled:

- the asset is available for immediate sale in its present condition and its sale is highly probable,
- there must be commitment to a plan to sell by an appropriate level of management,
- that plan must have been initiated,
- the assets (or disposal group) must be actively marketed at a reasonable price that is reasonable in relation to the asset's fair value,
- there must be an expectation that the sale will be completed within one year of the classification of assets or a disposal group as held for sale, and activities required to fulfil the plan indicate that it is unlikely to provide significant changes to the plan or that the plan will be obsolete.

Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale or distribution.

2.15. INVENTORIES

Inventories are assets:

- held for sale in the ordinary course of business (goods),
- materials or supplies purchased to be consumed for own use.

Initial measurement

Acquisition price is determined using the weighted average method. Under the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased or produced during the period. The weighted average is calculated when goods are taken to the warehouse.
The Group uses the same method of calculating the acquisition price in case of all the positions.

Acquisition cost comprises purchase price and other costs incurred for the purpose of bringing the inventories to their existing location and condition.
Purchase costs comprise actual purchase price, import duties, other non-deductible taxes and other directly attributable costs.
Cash, value or volume discounts and rebates (bonuses from suppliers counted on turnover) should be deducted from the acquisition cost.

Measurement of inventories at the reporting date

Inventories are measured at the lower of cost and net realisable value. Acquisition or construction cost is determined using the the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and sale.

The Group identifies following circumstances that lead to write-down of the inventories, to the level of net realisable value:

- decline of net realisable value (damage, expired etc.)
- the level of inventories exceeding the demand and selling possibilities,
- low rotation of inventories,
- selling prices of inventories are below their carrying amounts.

If the acquisition cost is higher than the net selling price at the reporting date, the inventories are written down to the value of their selling prices.

The amount of any write-down of inventories is recognised in other operating expenses.

2.16. NON DERIVATIVE FINANCIAL INSTRUMENTS

Valuation for the moment of initial recognition
At the moment of initial recognition, financial instruments are measured at fair value, increased, in the case of investments not classified as at fair value through profit or loss, by transaction costs that may be directly attributed to the purchase or issue of a financial instrument.

Discontinuation of recognition
The Group ceases to recognize a financial asset in the statement of financial position in the event of the expiry of the right to receive economic benefits and incur related risks or transfer them to third parties.

Valuation after initial recognition
For the purpose of valuation after initial recognition, financial assets are classified in one of four categories:
• Debt instruments measured at amortized cost,
• Debt instruments measured at fair value through other comprehensive income,
• Equity instruments measured at fair value through other comprehensive income,
• Financial assets at fair value through profit or loss.

Debt instruments - financial assets at amortized cost
A financial asset is measured at amortized cost if both of the following conditions are met:
(a) the financial asset is held in accordance with the business model, the purpose of which is to maintain financial assets for obtaining cash flows arising from the contract, and
(b) the contractual terms relating to a financial asset cause cash flows to occur at specified times, which are only repayment of the principal and interest on the principal outstanding.
In the category of financial assets measured at amortized cost, the Company classifies:

- trade receivables,
- loans held to obtain cash flows,
- cash and cash equivalents.

Interest income is calculated using the effective interest rate method and is shown in the profit and loss account under the item Financial income.

Debt instruments - financial assets at fair value through other comprehensive income
A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

a) the financial asset is maintained in accordance with the business model, which is aimed both at receiving cash flows resulting from the agreement and the sale of financial assets; and
(b) the contractual terms relating to a financial asset cause cash flows to occur at specified times, which are only repayment of the principal and interest on the principal outstanding.
Interest income, foreign exchange differences and impairment gains and losses are recognized in profit or loss and calculated in the same way as financial assets measured at amortized cost. Other changes in fair value are recognized in other comprehensive income. Upon cessation of the recognition of a financial asset, the total profit or loss previously recognized in other comprehensive income is reclassified from equity to the financial result.
Interest income is calculated using the effective interest rate method and is shown in the profit and loss account under the item Financial income.
In the category of debt instruments measured at fair value through other comprehensive income, the Group qualifies loans that arise from financing needs in the Group.

Capital instruments - financial assets at fair value through other comprehensive income

At the moment of initial recognition, the Group may make an irrevocable choice regarding the recognition in other comprehensive income of subsequent changes in the fair value of investments in an equity instrument that is not intended for trading or is a conditional consideration recognized by the acquirer in the merger of entities to which IFRS 3 applies This choice is made separately for each equity instrument. Accumulated profits or losses previously recognized in other comprehensive income are not reclassified to profit or loss. Dividends are recognized in the profit and loss account when the entity's right to receive dividends is established, unless these dividends clearly represent the recovery of part of the investment costs.
In the category of equity instruments measured at fair value through other comprehensive income, the Group qualifies shares in other entities, purchased options, warrants.

Financial assets at fair value through profit or loss

A financial asset that does not meet the measurement criteria at amortized cost or at fair value through other comprehensive income is measured at fair value through profit or loss.
The gain or loss on the valuation of debt investments at fair value is recognized in profit or loss.
Dividends are recognized in the profit and loss account when the entity's right to receive dividends arises.
In the category of equity instruments measured at fair value through the financial result, the Group qualifies shares of other entities.

In a situation where the Group:

- has a valid legal title to offset the amounts included and
- it intends to settle on a net basis or at the same time realize an asset and perform an obligation

the financial asset and financial liability are compensated and disclosed in the statement of financial position at the net amount.
The framework agreement described in IAS 32.50 does not constitute grounds for compensation if both criteria described above are not met.

Financial liabilities

Subsequent to initial recognition financial liabilities are measured at amortised cost using the effective interest method, excluding:

(a) financial liabilities designated as at fair value through profit or loss,

(b) financial liabilities recognized as a result of reclassification of financial assets that are not qualified to be derecognized,

(c) financial guarantees contracts,

(d) obligations to grant low-interest or interest-free loans.

2.17. DERIVATIVES

The Group uses derivatives to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for as a stand-alone derivative if:

- the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract,
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative,
- the hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss.

At the moment of initial recognition of the hedging position, the Group formally documents the relationship between the hedging instrument and hedged item. This documentation contains the purpose of risk management as well as methods that will be used to assess the hedging instrument effectiveness.

The hedge is assessed by the Group at the inception and on an ongoing basis as highly effective if following conditions are met:

- the hedge is expected to be highly effective in offsetting the changes in the fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated
- the actual results of hedge are within a range of 80-125% (retrospective effectiveness)
- Hedging of future transaction cash flows is applied for highly probable transactions exposed to cash flow changes risk that would be recognized as a profit or loss of current reporting period.

Derivatives are initially recognized at fair value; the associated transaction costs are recognized in the profit and loss account when incurred. After the initial recognition, the Group measures derivative financial instruments at fair value, profits and losses resulting from the change in fair value are included in the following way.

Cash flow hedge

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. The amount recognised in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the statement of comprehensive income as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the income statement.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects the income statement. When the hedged item is a non-financial asset, the amount recognised in other comprehensive income is transferred to the carrying amount of the asset when the asset is recognised. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognised immediately in profit or loss. In other cases the amount recognised in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Other non-trading derivatives

When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognized immediately in profit or loss.

2.18. TRADE RECEIVABLES AND OTHER SHORT-TERM RECEIVABLES

Trade receivables

Trade receivables comprise receivables resulting from realized supplies or rendered services due within 12 months and more than 12 months of the reporting date.

Other short-term receivables

Other short-term receivables comprise receivables due within 12 months of the reporting date excluding trade receivables.

Measurement of trade receivables and other receivables at the reporting date

In the case of trade receivables, the Group applies a simplified approach and measures the write-down for expected credit losses in the amount equal to expected credit losses over the whole life using the reserve matrix. The Group uses its historical data on credit losses, adjusted, where applicable, for the impact of future information.

The Group assesses the probability of payment of receivables by counterparties from the beginning of their creation. If receivables whose repayment by buyers is threatened or whose enforcement may cause difficulties are disclosed, they are updated by making a write-down in the profit and loss account.

Measurement of receivables denominated in foreign currency at the reporting date

Foreign currency receivables are translated at the closing rate at the date of the Group's financial statements. The amount of exchange differences is recognized in profit or loss as other finance income or other finance costs.

Bad debts allowance

The value of receivables shall be adjusted by a bad-debts allowance for:

- receivables from debtors put into liquidation or declared bankruptcy - up to the amount of the debts not covered by a guarantee or other payment security declared to a liquidator or judge commissioner in bankruptcy proceedings,
- receivables from debtors with dismissed bankruptcy declaration case if the debtor's property is not sufficient to cover the costs of bankruptcy proceedings - in the full amount,
- debts questioned as to their amounts owed or being in arrears with the repayment thereof and repayment of which, according to the evaluation of the debtor's financial

- debts overdue or not overdue but of a considerable degree of uncollectability – decreased by a reliably measured amount of an allowance,
- court proceeded debts – in the full amount of debts.

The amount of allowance derives not only from the events taking place before the reporting date but also events subsequent to the date of the financial statements' authorization, if those events relate to the debts which existed before the reporting date.
The bad-debts allowance is recognized in other operating expenses or finance costs, depending on the relevant receivable.

2.19. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash at hand and in bank accounts as well as bank deposits payable on demand, other safe short-term investments with an original maturity of up to three months from the date of their establishment, receipt, acquisition or issue and high liquidity. Cash and cash equivalents also include interest on cash equivalents.

2.20. SHORT-TERM PREPAYMENTS

Short-term prepayments are analyzed at each reporting date. The assessment is made by the Group, taking into consideration reasonable circumstances and knowledge about each position of prepayments.

Short-term prepayments include mainly:

- rent prepayments,
- electric energy and central heating prepayments,
- subscription prepayments,
- alcohol permissions,
- property tax,
- prepayments for other services (e.g. telecommunications),
- advance payments for lease of equipment.

2.21. IMPAIRMENT

Financial assets (including receivables)
The Group assesses the expected credit losses related to debt instruments carried at amortized cost and fair value through other comprehensive income, irrespective of whether there is any indication of impairment.

The factors determining the impairment of financial assets (including equity instruments) are included:

- default or delinquency by a debtor, whereas the Group regularly monitors the debtors ability to repay their debts,
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise,
- indications that a debtor or issuer will enter bankruptcy,
- the disappearance of an active market for a security,
- for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

When assessing the impairment for groups of assets, the Group uses historical trends to estimate the probability of occurrence of arrears and the date of payment and the value of losses incurred, adjusted by the Management Board's estimates assessing whether current economic and credit conditions indicate that the actual level of losses would significantly differ from the level of losses resulting from from the assessment of historical trends.

Non-financial assets

The carrying amounts of the Group'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. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes.

Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the income statement. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed 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.

Goodwill that forms part of the carrying amount of an investment in an associate is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

2.22. EQUITY

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

Repurchase of treasury shares

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

The amount reserved for repurchase of share capital, based on the Shareholders' Meeting's resolution, is presented in equity as separate capital reserves.

Distribution of financial result

Distribution of the financial results of subsidiaries is reflected in the consolidated financial statements in accordance with Resolutions of the subsidiaries without making any additional consolidation eliminations.

2.23. LONG-TERM LIABILITIES

Long-term liabilities comprise liabilities due to be settled after 12 months from the end of the reporting period.

Long-term liabilities include mainly:

- loans and borrowings,
- finance lease liabilities,
- deposits from subtenants of wholesale surface.

Measurement of the long-term liabilities

At as the reporting date long-term liabilities are measured at amortized cost using the effective interest method.

Measurement of long-term liabilities denominated in foreign currency

Foreign currency liabilities are measured at least at the reporting date using the spot exchange rate.
Foreign currency gains and losses from valuation of long-term liabilities are recognized in finance income or costs accordingly.

Liabilities due to acquire non-controlling shares

The valuation of the put option of non-controlling shareholders, the execution of which implies the obligation to purchase non-controlling interests for Eurocash, is recognized as a remaining liability in connection with the option to purchase/sell shares. Liabilities to acquire non-controlling shares are recognized in the amount of the most probable redemption price for these shares based on the ratios contained in investment contracts, the individual values of which come from the financial plans of the companies. The liability value calculated in this way is discounted to the present value.

At each subsequent balance sheet date, the liability is measured based on the current values of financial ratios and adjusted for the current discount rate.

2.24. SHORT-TERM LIABILITIES

Short-term liabilities comprise liabilities due to be settled within 12 months from the end of reporting period.

Short-term liabilities include mainly:

- loans and borrowings,
- finance lease liabilities,
- trade payables,
- taxation, social security and other benefits payables,
- payroll payables,
- liabilities due to financing of franchisees.

As part of trade payables, the Group presents liabilities covered by reverse leasing

Measurement of the short-term liabilities

At the reporting date short-term liabilities are measured at amortized cost using the effective interest method.

Measurement of short-term liabilities denominated in foreign currency

Foreign currency liabilities are measured at least at the reporting date using the spot exchange rate.

Foreign currency gains and losses from valuation of short-term liabilities are recognized in finance income or expenses accordingly.

2.25. LOANS

The Group initially recognizes bank and other loans and debt securities at fair value of cash received decreased by any directly attributable transaction costs.

Subsequent to initial recognition loans and debt securities are measured at amortized cost using the effective interest method.

2.26. PROVISIONS

Provisions are recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

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.

Using the provisions may be made according to the time flow or benefit size. Time and method of settlement should be adequate to the character of expenses, according to the prudence method.

Provisions lower the expenses for the period, in which it was affirmed that the liabilities would not arise.

2.27. SALES

The Group applies IFRS 15 Revenue from contracts with clients to all contracts with clients, with the exception of leasing agreements covered by the scope of IFRS 16 Leases, financial instruments and other contractual rights and obligations falling within the scope of IFRS 9 Financial Instruments, IFRS 1 Consolidated Financial Statements, IFRS 11 Joint Findings contractual, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures.

The basic principle of IFRS 15 is the recognition of revenues at the moment of the transfer of goods and services to the client, in a value reflecting the price expected by the entity, in exchange for the transfer of goods and services.

These rules are applied using the five-step model:

• a contract with the client has been identified,
• commitments to perform the service under the contract with the client have been identified,
• the transaction price was determined,
• the transaction price was allocated to individual liabilities and performance of the service,
• revenues are recognized when the contractual obligation is fulfilled.

Identification of the contract with the client

The Group recognizes the contract with the client only if all of the following criteria are met:

• the parties to the contract have entered into a contract (in writing, or in accordance with other usual commercial practices) and are required to perform their duties,
• The Group is able to identify the rights of each party regarding the goods or services to be transferred,
• The Group is able to identify the payment terms for goods or services to be transferred,
• the contract has economic content (i.e. it can be expected that the contract will change the risk, the time schedule or the amount of future cash flows of the entity),
• it is probable that the Group will receive a remuneration which it will be entitled to in exchange for goods or services that will be transferred to the client.

When assessing whether the receipt of the amount of remuneration is probable, the Group only considers the ability and intention to pay the amount of remuneration by the client in a timely manner. The amount of remuneration that will be due to the Group may be lower than the price specified in the contract if the remuneration is variable, because the entity may offer the customer a price concession.

Determining the transaction price

In order to determine the transaction price, the Group takes into account the terms of the contract and the usual commercial practices. The transaction price is the amount of remuneration which, in line with the Group's expectations, will be payable in exchange for the transfer of promised goods or services to the client, with the exception of amounts collected on behalf of third parties (eg certain sales taxes). The remuneration specified in the contract with the client may include fixed amounts, variable amounts or both types of amounts.

Variable remuneration

If the remuneration specified in the contract includes a variable amount, the Group estimates the amount of remuneration to which it will be entitled in exchange for the transfer of the promised goods or services to the client. The Group estimates the amount of variable remuneration using one of the following methods, depending on the type of contract:

– expected value - the sum of the products of the possible remuneration amounts and the corresponding probabilities of occurrence. The expected value may be an appropriate estimate of the amount of variable remuneration if the Group has a large number of similar contracts,

- the most probable value - it is the single most probable amount from the range of possible remuneration amounts (ie the single most probable outcome of the contract). The most likely value may be an appropriate estimate of the amount of variable remuneration if the contract has only two possible outcomes (eg the Group either earns a performance bonus or not).

Assigning the transaction price to the obligations to perform the service

The Group assigns a transaction price to each obligation to provide the service (or a separate good or separate service) in an amount that reflects the amount of remuneration which, as expected by the Group, is due in exchange for the transfer of promised days and services to the client.

Fulfilling obligations to perform the service

The Group recognizes revenue when it meets (or in the course of fulfilling) the obligation to perform the service by transferring the promised good or services to the client.

Remuneration of the principal and remuneration of the intermediary

If another entity is involved in providing goods or services to the customer, the Group determines whether the nature of the Group's promise is an obligation to provide certain goods or services (in this case the Group is the principal) or on behalf of another entity to provide these goods or services (in this case the Group is an intermediary).

The group is the principal if it exercises control over the promised good or service prior to their commandment to the client. However, an entity does not have to act as principal if it obtains a legal title to the product only temporarily before it is transferred to the customer. An entity appearing in the contract as the principal may itself fulfill the obligation to perform the service or may entrust the fulfillment of this obligation or part thereof to another entity (eg subcontractor) on its behalf. In this situation, the Group recognizes revenue in the gross amount of remuneration to which it is expected to be entitled in exchange for goods or services transferred.

The Group acts as an intermediary if its obligation to perform the service consists in ensuring delivery of goods or services by another entity. In such a case, the Group recognizes revenue in the amount of any fee or commission to which it is expected to be entitled in exchange for ensuring delivery of goods or services by another entity.

Variable remuneration

Some contracts with clients include variable amounts of remuneration, including in connection with the granting of discounts, rebates, penalties.

If the remuneration specified in the contract includes a variable amount, the entity estimates the amount of remuneration to which it will be entitled in exchange for the transfer of promised goods or services to the client and includes part or all of the variable remuneration in the transaction price only to the extent that it is highly probable that there will be no reversal of a significant part of the amount of previously recognized accumulated revenues at the time when the uncertainty about the amount of variable remuneration is flat.

2.28. FINANCE INCOME AND COSTS

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in the income statement.

Interest income

Interest income is recognized as it accrues in profit or loss on accrual basis, using the effective interest method.

Dividend income

Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expenses on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through the income statement, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in the income statement using the effective interest method. Foreign currency gains and losses are reported on a net basis.

2.29. EMPLOYEE BENEFITS

Long-term employee benefits

The Group recognizes expenses regarding pension plans and other employee benefits for the post-employment period by defining benefit pension obligation.

The calculation of Employee benefits reserves is performed using the projected unit credit method. The calculation is performed by a qualified actuary. The liability is recognized on an accrual basis and measured in the discounted present value of benefits, that employees have earned as at the reporting date, adjusted by personnel and demographic movements indexes.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

The Group recognizes liability for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

2.30. SHARE-BASED PAYMENT TRANSACTIONS

The share-based payment transactions allow employees to cover share of the controlling company. The fair value of share-based payment awards granted to employees is recognized as separate position in profit or loss as an employee expense, with a corresponding increase in equity (reserve capital). The fair value is measured as at the grant date and recognized over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met.

The fair value of the employee share options rights is measured using Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holders' behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

2.31. INCOME TAX

Income tax covers the current and deferred part. Current and deferred income tax is recognized as profit or loss of the current period, except when it concerns a business combination and items recognized directly in equity or as other comprehensive income.

Current tax is the expected amount of liabilities or receivables due to tax on taxable income for a given reporting period, calculated on the basis of the tax result (tax base) of a given reporting period and adjusted by adjustments of tax liability regarding previous reporting periods. Tax income differs from gross book profit (loss) due to the exclusion of certain categories of balance sheet revenues as not subject to taxation and balance sheet expense, not constituting tax deductible costs and items of costs and revenues that will never be subject to taxation or reduce the tax base in subsequent years . Tax burdens are calculated based on tax rates applicable in a given reporting period.

Deferred tax is calculated using the balance sheet method as a tax to be paid or returned in the future on temporary differences between the balance sheet values of assets and liabilities and the corresponding tax values used to calculate the tax base.

Deferred tax provision is created from all positive temporary differences

- except when the provision for deferred tax arises as a result of the initial recognition of goodwill or initial recognition of an asset or liability when a transaction is not a business combination and does not affect gross profit or loss or taxable income or tax loss, and
- in the case of positive temporary differences arising from investments in subsidiaries or affiliates and interests in joint ventures - except when the dates of reversal of temporary differences are subject to investor control and when it is probable that the temporary differences will not be reversed in the foreseeable future.
- Deferred tax assets are recognized for all deductible temporary differences as well as unused tax credits and unused tax losses carried forward to the following years, in the amount in which it is probable that taxable income will be achieved, which will allow to use the abovementioned taxable profit. differences, assets and losses
- except when deferred tax assets related to deductible temporary differences arise as a result of the initial recognition of an asset or liability when a transaction is not a business combination and have no effect on gross profit or loss or taxable income tax loss, and
- in case of negative temporary differences due to investments in subsidiaries or affiliates and shares in joint ventures, the deferred tax asset is recognized in the balance sheet only in the amount in which it is probable that in the foreseeable future the above-mentioned temporary differences will be reversed and taxable income will be achieved, which will allow deduction of negative temporary differences.

The value of deferred tax assets is analyzed at the end of each reporting period, and if the expected future tax profits are not sufficient to realize an asset or its part, it is recognized to the realizable value.

Deferred tax assets and deferred tax provisions are valued using tax rates that are expected to apply in the period when the asset is realized or the provision is released, based on tax rates (and tax regulations) in force as at the balance sheet date or those whose validity is certain in the future as at the balance sheet date.
Income tax relating to items recognized outside profit or loss is recognized outside profit or loss: in other comprehensive income, for items recognized in other comprehensive income or directly in equity for items recognized directly in equity.

Deferred income tax assets and deferred tax liabilities are offset if the Company has a legally enforceable right to offset current tax liabilities and assets and provided that the deferred income tax assets and reserves relate to income tax imposed by the same tax authority for the same taxpayer.

2.32. UNCERTAIN TAX TREATMENT

If according to the Group's assessment it is probable that the tax authorities will accept an uncertain tax treatment or a group of uncertain tax treatments, the Group determines taxable income (tax loss), tax base, unused tax losses and unused tax credits and tax rates, after considering in its tax return the applied or planned approach to taxation.
If the Group ascertains that it is not probable that the tax authorities will accept an uncertain tax treatment or a group of uncertain tax treatments, the Group reflects the impact of this uncertainty in determining taxable income (tax loss), unused tax losses, unused tax credits or tax rates. The Group accounts for this effect using the following methods:

- determining the most probable amount – it is a single amount from among possible results,
- providing the expected amount – it is the sum total of the amounts weighted by probability from among possible results.

2.33. DISCONTINUED OPERATIONS

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is represented as if the operation had been discontinued from the start of the comparative period.

2.34. EARNINGS PER SHARE

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

2.35. MERGERS OF THE ENTITIES UNDER COMMON CONTROL

The acquired assets and liabilities resulting from the merger of entities under common control of the shareholder, who simultaneously controls the Group, are recognized at book value from the consolidated financial statements of Eurocash S.A. Capital Group.
Differences from the merger are referred to equity.

2.36. OPERATING SEGMENTS

An operating segment is a component of the Group:

a) which engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses that relate to transactions with any of the Group's other components);
b) which results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance;
c) for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.
Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

3. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS PREPARED FOR THE PERIOD FROM 01.01 TO 31.12.2018

NOTE 1.
ACQUISITION OF SHARES IN A SUBSIDIARY

1. Acquisition of 100% shares in Mila.

General information

On 29 May 2018, Eurocash purchased 100% of shares in the Cyprus-based company Domelius Limited, with its registered office in Nikozja and took over the control of Domelius and subsidiaries of Domelius, which are: Mila Holding S.A. (previously Grupa 700 market-Detal spółka z ograniczoną odpowiedzialnością S.K.A.), Mila S.A. (previously: Market-Detal spółka z ograniczoną odpowiedzialnością sp.j.) and Investpol 700 Mila spółka akcyjna spółka jawna and „Koja-Mila spółka akcyjna" spółka jawna.

GENERAL INFORMATION CONCERNING BUSINESS ACQUISITION OF THE UNITS		
1.	Name of acquired company	Mila Group
2.	Acquisition date	29.05.2018
3.	Acquisition cost	349 276 106

Settlement of business acquisition

As at 31.12.2018 The Group made the final settlement of the purchase price.

ACQUISITION COST	as at 29.05.2018
Cash	**349 276 106**

NET ASSETS ACQUIRED	Settlement of the acquisition as at 29.05.2018
Assets	
Non-current assets (long-term)	**144 789 628**
Intangible assets	11 436 026
Tangible fixed assets	125 662 084
Long-term receivables	7 447 826
Other long-term prepayments	243 692
Current assets (short-term)	**140 770 706**
Inventory	115 480 302
Trade receivables	6 898 959
Other short-term receivables	6 960 201
Short-term prepayments	2 233 434
Cash and cash equivalents	9 197 811
Total assets	**285 560 334**
Equity nad liabilities	
Liabilities	**324 315 934**
Non-current liabilities	**36 870 224**
Other long-term financial liabilities	991 609
Long-term loans and credits	30 796 210
Other long-term liabilities	2 697 653
Deferred tax liabilities	1 676 765
Employee benefits	707 987
Current liabilities	**287 445 710**
Short-term loans and credits	5 353 520
Other short-term financial liabilities	6 054 410
Trade liabilities	198 369 374
Other short-term liabilities	17 193 077
Current employee benefits	18 893 728
Other short-term provisions	41 581 602
Total liabilities	**324 315 934**
Net assets	**(38 755 600)**
Net assets acquired (100 %)	(38 755 600)
Goodw ill on acquisition	388 031 705
Acquisition cost	**349 276 106**

The established goodwill is mainly related to the fact that thanks to the acquisition of companies from Domelius Group (Mila stores), the Eurocash S.A. Group. has expanded its distribution channels for food, chemical products and cosmetics. In connection with the acquisition, Eurocash S.A. Group. has become the leading distributor in terms of the value of sales in Poland.

NOTE 2.

SALE OF 100% SHARES IN PAYUP POLSKA S.A. BY EUROCASH S.A.

On 19 December 2018 was concluded the final agreement to sell 100% shares of PayUp Polska S.A. with its registered office in Komorniki to Centrum Rozliczeń Elektronicznych Polskie E-Płatności S.A.

The fair value of transaction price was valuated at PLN 85,6 million.

As at the date of sale, assets of PayUp Polska S.A. amounted to PLN 47 million, equity PLN 5 million, liabilities in total of PLN 42 million.

The parties to the transaction have also concluded on 27 September 2018 an agreement on long-term cooperation, ensuring the continuity of payment services for Eurocash Group's customers. The acquisition of PayUp by Polskie ePłatności will make it possible to further develop the services provided through POS terminals installed at Eurocash customers' stores. PayUp will gain a strong strategic partner with the know-how and resources necessary for further development. Eurocash Group will focus on its core business and the development of new projects that support the competitiveness of independent retail in Poland.

NOTE 3.
RESTATEMENT OF COMPARATIVE DATA

The restatement of comparative data is related also to the change in the recognition of revenues from the sale of goods and services and their cost in connection with the application of IFRS 15 and has no impact on the operating result of the Group. The change in the presentation concerns mainly the issue of determining the remuneration of the client and remuneration of the intermediary and determining the sale of separate goods and services.

In valuating the agency model, the following criteria from IFRS 15 are taken:

- main responsibility for fulfilling the promise to provide a good or service,
- the risk of storing the stock,
- the ability to freely determine the prices of goods or services.

As a result of the change in the presentation on this account, revenues from the sale of goods were adjusted by PLN 747 million.
In accordance with IFRS 15, the Group identifies liabilities to perform the service and determines whether individual transactions with a given contractor constitute separate goods or services.
As a result of the change in presentation on this account, revenues from the sale of goods were adjusted by PLN 382 million and revenues from sale of services by PLN 1.292 million.

	The amount in the approved report	Correction	The corrected amount
	for the period from 01.01.2017 to 31.12.2017	for the period from 01.01.2017 to 31.12.2017	for the period from 01.01.2017 to 31.12.2017
Sales	**23 271 078 476**	**(2 421 613 514)**	**20 849 464 962**
Sales of goods	21 842 339 034	(1 129 335 433)	20 713 003 600
Sales of services	1 423 836 472	(1 292 278 081)	131 558 391
Sales of materials	4 902 971	-	4 902 971
Costs of sales	**(20 830 101 294)**	**2 445 953 594**	**(18 384 147 701)**
Costs of goods sold	(20 636 236 321)	2 256 269 688	(18 379 966 634)
Costs of services sold	(189 683 906)	189 683 906	-
Costs of materials sold	(4 181 067)	-	(4 181 067)
Gross profit (loss)	**2 440 977 182**	**24 340 079**	**2 465 317 261**
Selling expenses	(1 922 221 341)	(23 373 129)	(1 945 594 470)
General and administrative expenses	(372 521 997)	(966 950)	(373 488 948)
Profit (loss) on sales	**146 233 843**	**(0)**	**146 233 843**
Other operating income	75 180 146	-	75 180 146
Other operating expenses	(158 419 741)	-	(158 419 741)
Operating profit (loss)	**62 994 248**	**(0)**	**62 994 248**

NOTE 4.
OPERATING SEGMENTS

Starting in 2018, the Eurocash Management Board has decided to change the presentation of segments. As a result of the analysis conducted by the Eurocash Group, the Group presents the following segments, which correctly show the diverse of the activity:

- *Wholesale* - The segment includes wholesale operations carried out by the following distribution formats and companies: Eurocash Cash & Carry, Eurocash Alkohole, Eurocash Serwis Sp. z o.o., PayUp Polska S.A., Eurocash Trade 1 Sp. z o.o., EC VC7 Sp. z o.o. and Polska Dystrybucja Alkoholi Sp. z o.o. as well as sales transacted by those distribution formats whose clients have long-term agreements with Eurocash Group, e.g. franchise systems or clients from the HoReCa segment, as well as operations of such a franchise systems as: Lewiatan, Groszek and Euro Sklep. The segment involves the operations of the following companies: Eurocash S.A., Euro Sklep S.A., Lewiatan Śląsk Sp. z o.o., Detal Podlasie Sp. z o.o., Lewiatan Podlasie Sp. z o.o., Lewiatan Holding S.A., Lewiatan Zachód Sp. z o.o., Lewiatan Wielkopolska Sp. z o.o., Lewiatan Kujawy sp. z o.o., Lewiatan Opole Sp. z o.o., Lewiatan Orbita Sp. z o.o., Lewiatan Północ Sp. z o.o., Lewiatan Podkarpacie Sp. z o.o. Moreover, this segment includes sales transacted by the Eurocash Gastronomia format, as well as sales realized by Eurocash Dystrybucja under entity Eurocash S.A. and sales realized by DEF Sp. z o.o. and Ambra Sp. z o.o.

- *Retail* - retail sale of Eurocash Group companies within the following entities: Inmedio Sp. z o.o., Firma Rogala Sp. z o.o., FHC-2 Sp. z o.o., Madas Sp. z o.o., EKO Holding S.A., Mila S.A., Investpol 700 Mila spółka akcyjna sp.j., and Mila Holding S.A., Domelius, „Koja-Mila spółka akcyjna” spółka jawna, as well as mark Delikatesy Centrum.

- *Projects* – this operating segment comprises the Group's new projects and retail formats in their initial phase of development, operating as the following entities: Eurocash Convenience Sp. z o.o., Kontigo Sp. z o.o, Eurocash Detal Sp. z o.o., ABC na kołach Sp. z o.o., Duży Ben Sp. z o.o., Sushi 2Go Sp. z o.o., 4vapers Sp. z o.o., as well as new projects developed by Eurocash S.A. e.g. project of distribution of fresh products.

- *Other* – sales realized by Eurocash Trade 2 Sp. z o.o., Eurocash VC2 Sp. z o.o. w likwidacji, Eurocash VC3 Sp. z o.o. Detal Finanse Sp. z o.o., Akademia Umiejętności Eurocash Sp. z o.o. and the Group’s general and administrative expenses not allocated to any operating segment and one-offs.

There are varying levels of relationships between the segments in the Group. These relationships include mutual sales of merchandise, provision of marketing services, logistics, administrative support, and other services. The accounting policies of each specific reporting segment are the same as the policies of the whole Group.
Eurocash Group operates only in the territory of Poland which, considering the economic conditions and business risks, can be treated as a uniform territory.

In the FMCG wholesale and retail sector, sales in the first quarter of the year are traditionally lower than in the remaining quarters. Highest sales are generated in the summer season, to flatline in Q4.
Key managers of Eurocash Group do not periodically review the assets and liabilities of the particular operating segments.

REVENUES AND PROFITS BY BUSINESS SEGMENTS IN THE PERIOD FROM 01 JANUARY 2018 TO 31 DECEMBER 2018

	Wholesale	Retail	Projects	Other	Exclusions	Total
Sales	**19 266 666 055**	**5 542 815 443**	**685 854 992**	**4 340 614**	**(2 666 788 706)**	**22 832 888 398**
External sales of goods	17 681 877 370	4 318 719 818	680 297 534	-	-	22 680 894 721
Other external sales	62 473 882	88 867 051	189 535	463 209	-	151 993 677
Inter-segmental sales	1 522 314 804	1 135 228 575	5 367 922	3 877 405	(2 666 788 706)	-
Operating profit	**303 926 387**	**26 609 792**	**(45 072 311)**	**(71 088 386)**	**-**	**214 375 483**
Finance income						35 915 044
Finance costs						(89 856 973)
Share in losses of companies consolidated with the equity method						(4 882 304)
Profit before income tax						**155 551 249**
Income tax						(43 898 979)
Net profit (loss)						**111 652 270**

REVENUES AND RESULTS BY BUSINESS SEGMENTS IN THE PERIOD FROM 01 JANUARY 2017 TO 31 DECEMBER 2017 (restated)

	Wholesale	Retail	Projects	Other	VAT settlements	Exclusions	Total
Sales	**18 167 320 738**	**4 211 971 314**	**554 750 175**	**-**	**-**	**(2 084 577 265)**	**20 849 464 962**
External sales of goods	16 724 602 456	3 436 826 297	551 574 847	-	-	-	20 713 003 600
Other external sales	57 366 532	78 940 722	154 108	-	-	-	136 461 362
Inter-segmental sales	1 385 351 749	696 204 294	3 021 221	-	-	(2 084 577 265)	-
Operating profit	**239 103 403**	**92 346 681**	**(53 075 415)**	**(100 979 561)**	**(114 400 861)**	**-**	**62 994 248**
Finance income							29 035 301
Finance costs							(66 969 577)
Share in losses of companies consolidated with the equity method							(4 747 298)
Profit before income tax							**20 312 674**
Income tax							(49 872 379)
Net profit (loss)							**(29 559 705)**

NOTE 5.
GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets are presented in table below.

GOODWILL AND INTANGIBLE FIXED ASSETS IN THE PERIOD FROM 01.01 TO 31.12.2018

	Goodwill	Patents and licences	Trademarks	Customer relations	Other intangible assets	Total
Carrying amount as at 01.01.2017	**1 254 108 025**	**31 651 076**	**70 571 716**	**213 939 957**	**42 158 357**	**1 612 429 131**
Acquisition through business combination	-	-	-	-	-	**-**
Other acquisitions	147 228 762	19 655 892	980 924	-	22 988 213	**190 853 791**
Increases due to the transfer of fixed assets under construction	-	1 262 463	-	-	857 648	**2 120 111**
Disposals	-	(8 116)	-	-	(123 227)	**(131 342)**
Liquidations	-	-	-	-	(1 760 622)	**(1 760 622)**
Amortisation	-	(21 578 380)	(3 874 347)	(20 399 991)	(9 760 959)	**(55 613 677)**
Other changes	-	-	-		525 576	**525 576**
Carrying amount as at 31.12.2017	**1 401 336 787**	**30 982 936**	**67 678 294**	**193 539 966**	**54 884 985**	**1 748 422 968**
Carrying amount as at 01.01.2018	**1 401 336 787**	**30 982 936**	**67 678 294**	**193 539 966**	**54 884 985**	**1 748 422 968**
Acquisition through business combination	388 031 705	8 932 798	-	-	2 392 333	**399 356 836**
Other acquisitions	-	14 313 867	11 690	-	18 247 249	**32 572 806**
Increases due to the transfer of fixed assets under construction	-	5 353 511	-	-	(4 648 054)	**705 457**
Disposals	(5 722 015)	(3 351 206)	-	-	(4 690)	**(9 077 910)**
Liquidations	-	(143 107)	-	-	(32 745)	**(175 852)**
Amortisation	-	(22 934 408)	(4 857 518)	(20 399 991)	(9 755 615)	**(57 947 532)**
Other changes	-	133 922	-	-	(2 598 978)	**(2 465 056)**
Carrying amount as at 31.12.2018	**1 783 646 478**	**33 288 312**	**62 832 465**	**173 139 975**	**58 484 486**	**2 111 391 716**

GOODWILL AND INTANGIBLE FIXED ASSETS IN THE PERIOD FROM 01.01 TO 31.12.2018 (continued)

	Goodwill	Patents and licences	Trademarks	Customer relations	Other intangible assets	**Total**
As at 31.12.2017						
Cost	1 401 336 787	178 048 774	105 978 720	315 673 264	136 903 795	2 137 941 340
Accumulated amortisation	-	(147 065 839)	(38 300 425)	(122 133 298)	(82 018 810)	(389 518 372)
Carrying amount	**1 401 336 787**	**30 982 936**	**67 678 294**	**193 539 966**	**54 884 986**	**1 748 422 967**
As at 31.12.2018						
Cost	1 783 646 478	203 288 558	105 990 410	315 673 264	150 258 911	2 558 857 620
Accumulated amortisation	-	(170 000 247)	(43 157 944)	(142 533 289)	(91 774 425)	(447 465 903)
Carrying amount	**1 783 646 478**	**33 288 312**	**62 832 466**	**173 139 975**	**58 484 486**	**2 111 391 716**

Goodwill presented in the consolidated statement of financial position consists of the following items:

a) goodwill on acquisition of an organized part of "Carment, M. Stodółka i Wspólnicy Spółka Jawna" enterprise in the amount of PLN 11.565.477;

b) goodwill on acquisition of "KDWT S.A" in the amount of PLN 22.103.227;

c) goodwill on acquisition of "Eurocash Dystrybucja Sp. z o.o." (former “McLane Polska Sp. z o.o.”) in the amount of PLN 56.868.456;

d) goodwill on acquisition of "Nasze Sklepy Sp. z o.o." in the amount of PLN 2.596.627;

e) goodwill on acquisition of "Przedsiębiorstwo Handlowe Batna Sp. z o.o." in the amount of PLN 29.180.412;

f) goodwill on acquisition of Premium Distributors Group in the amount of PLN 226.352.528;

g) goodwill on acquisition of PolCater Group in the amount of PLN 11.428.359;

h) goodwill on acquisition of Tradis Group in the amount of PLN 684.865.254,

i) goodwill on acquisition of Dziembor i Spółka Sp. z o.o in the amount of PLN 5.253.762,

j) goodwill on acquisition of Przedsiębiorstwo Handlowo- Usługowe Noban sp. z o.o in the amount of PLN 991.988,

k) goodwill on acquisition by Eurocash S.A. of FMCG Service sp. z o.o., in the amount of PLN 60.349.278,

l) goodwill on acquisition by Eurocash S.A. of Inmedio sp. z o.o., in the amount of PLN 55.021.256.

m) goodwill on acquisition by Eurocash S.A. of Firma Rogala Sp. z o.o. in the amount of PLN 37.315.064,31,

n) goodwill on acquisition by Eurocash S.A. of FHC-2 Sp. z o.o. i Madas Sp. z o.o. in the amount of PLN 29.594.628,35,

o) goodwill on acquisition by Eurocash S.A. of Polska Dystrybucja Alkoholi Sp. z o.o. in the amount of PLN 17.484.368,84,

p) goodwill on acquisition by Eurocash S.A. of EKO Holding S.A. in the amount of PLN 144.583.970,

q) goodwill on acquisition by Eurocash S.A. of Domelius Limited (Mila stores) in the amount of PLN 388.031.705.

Customer relations has been identified through the acquisition of:
a) Premium Distributors Group companies in the amount of PLN 49.000.000 (amortization period 10 years);
b) Tradis Group in the amount of PLN 250.000.000 (amortization period 20 years),
c) company Service FMCG in the amount of PLN 14.473.264 (amortization period 5 years).

The Group has the following intangible assets with indefinite useful lives:
a) "Eurocash" trademark with a carrying amount of PLN 27.387.672,
b) "abc" trademark with a carrying amount of PLN 17.216.759,

Amortization of intangible assets is recognized as selling expenses.

The Group did not recognize any impairment losses in relation to intangible assets, what is expanded in Note 7.

NOTE 6.
PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are presented below:

PROPERTY, PLANT AND EQUIPMENT IN THE PERIOD FROM 01.01 TO 31.12.2018

	Land and buildings	Plant and equipment	Vehicles	Other fixed assets	Fixed assets under construction	**Total**
Carrying amount as at 01.01.2017	**339 773 354**	**115 974 040**	**11 884 493**	**109 771 905**	**9 990 617**	**587 394 409**
Acquisition through business combination	36 971 675	21 952 901	650 525	15 030 583	55 750	**74 661 435**
Other acquisitions	15 282 905	56 496 560	7 403 670	42 236 047	40 698 816	**162 117 998**
Changes due to the transfer of fixed assets under construction	9 143 717	695 626	(2 970)	1 394 989	(13 351 473)	**(2 120 111)**
Finance lease	-	705 425	721 164	390 065	-	**1 816 654**
Disposals	(490 953)	(121 579)	(188 345)	(883 924)	(3 647 379)	**(5 332 179)**
Liquidations	(5 096 426)	(594 668)	(220 062)	(1 263 730)	(377 921)	**(7 552 807)**
Finance lease	(5 983 658)	(527 735)	(86 134)	-	-	**(6 597 527)**
Depreciation	(33 785 396)	(40 168 532)	(5 973 968)	(47 775 740)	-	**(127 703 636)**
Other changes	2 273 756	187 641	(70 479)	2 194 483	(2 279 930)	**2 305 471**
Carrying amount as at 31.12.2017	**358 088 974**	**154 599 681**	**14 117 893**	**121 094 678**	**31 088 480**	**678 989 707**
Carrying amount as at 01.01.2018	**358 088 974**	**154 599 681**	**14 117 893**	**121 094 678**	**31 088 480**	**678 989 707**
Acquisition through business combination	39 539 267	47 107 120	5 107 534	28 144 843	2 775 996	**122 674 759**
Other acquisitions	32 852 350	49 182 409	5 128 294	38 870 925	25 846 001	**151 879 979**
Changes due to the transfer of fixed assets under construction	10 640 863	2 337 269	42 030	8 063 887	(21 789 506)	**(705 457)**
Finance lease	-	-	1 755 581	-	-	**1 755 581**
Disposals	(1 180 649)	(4 876 652)	(1 956 851)	(1 020 248)	(1 007 404)	**(10 041 805)**
Liquidations	(7 010 743)	(2 771 141)	668 338	(1 673 637)	21 780	**(10 765 403)**
Finance lease	-	(18 561)	(803 351)	-	-	**(821 912)**
Depreciation	(36 793 009)	(56 331 299)	(6 504 664)	(46 659 646)	-	**(146 288 619)**
Other changes	2 542 326	614 702	1 024 180	2 201 215	(2 862 137)	**3 520 286**
Carrying amount as at 31.12.2018	**398 679 379**	**189 843 527**	**18 578 984**	**149 022 016**	**34 073 211**	**790 197 116**

PROPERTY, PLANT AND EQUIPMENT IN THE PERIOD FROM 01.01 TO 31.12.2018 (continued)

	Land and buildings	Plant and equipment	Vehicles	Other fixed assets	Fixed assets under construction	**Total**
As at 31.12.2017						
Cost	570 637 367	344 073 974	130 182 260	389 048 844	31 088 481	1 465 030 925
Accumulated amortisation	(212 548 393)	(189 474 294)	(116 064 366)	(267 954 166)	-	(786 041 218)
Carrying amount	**358 088 974**	**154 599 680**	**14 117 893**	**121 094 678**	**31 088 481**	**678 989 708**
As at 31.12.2018						
Cost	648 020 781	435 649 119	141 148 015	463 635 828	34 073 211	1 722 526 953
Accumulated amortisation	(249 341 401)	(245 805 593)	(122 569 030)	(314 613 812)	-	(932 329 837)
Carrying amount	**398 679 379**	**189 843 527**	**18 578 984**	**149 022 016**	**34 073 211**	**790 197 117**

Property, plant and equipment under finance lease

The Group uses vehicles, and forklift trucks under finance lease. According to the lease agreements the Group has a right to buy the assets after the termination of the agreed term of lease for a price stated in the agreement or to continue using the leased property under a new lease contract signed with the financing institution. The price is a difference between the value of the leased property repaid immediately and the value of the capital repaid in lease instalments. As at the end of the reporting period, the carrying amount of tangible fixed assets under finance lease was PLN 16.212.493 (31.12.2017: PLN 17.906.476), and the amount payable to the lessor in this respect amounted to PLN 8.469.417 (31.12.2017: PLN 10.714.936). The leased items are a property of the lessor (the financing institution) until they are acquired by the Group. Those assets are depreciated for tax purposes by the lessor.

The lease contracts do not include any provisions or any obligations upon the Group concerning dividends, additional debt or additional lease contracts.

Realisation of the lease agreements is secured on lease assets.

NOTE 7.
ANALYSIS OF INDICATIONS OF POTENTIAL IMPAIRMENT OF ASSETS

For intangible assets with indefinite useful lives, the Group performed the following impairment tests:

- impairment test of the "Eurocash" trademark with a value of PLN 27.387.672 as at 31.12.2018,
- impairment test of the "abc" trademark with a value of PLN 17.216.759 as at 31.12.2018,

For the purpose of the test, the recoverable amount of the trademark was determined at the fair value less costs to sell using the license fees method.

Valuation method, by fair value decreased by cost of sales, based on license fees consists in determining the present value of future economic benefits derived by an entity from holding the title to a trademark. This method is based on the assumption that benefits derived from a trademark are equal to costs which would have to be incurred by an entity with no rights to the trademark (if the trademark had been used under an arm's length license agreement). Fair value was qualified to the 3rd hierarchy level.
The market level of license fees is determined based on projection of sales of products carrying the trademark and determining the rate of license fee for using that trademark. The rate of license fee is determined based on the analysis of trademark lease agreements concluded on arm's length terms.
Tests were carried out based on financial projections for the years 2019-2023. To determine the values of selected projection ratios, historical data was used for year 2017 and plans approved by the Management Board of Eurocash S.A. for the years 2019-2023. In order to determine the total level of sales, sales increases were predicted for the existing locations at the date of the test.
The weighted average cost of capital - WACC (from 6.71%) was adopted as a discount rate.

As a result of the prepared analysis, it was confirmed that there is no need to recognize an impairment loss.

In connection with the announced strategy for the next 5 years, the Group changed operating segments and reporting segments.
The allocation of goodwill to operating segments has been changed, which is consistent with the report segments. As at 31.12.2018, the Group performed impairment tests for individual goodwill recognized in the financial statements in the total amount of PLN 1.783.646.478 and valuated the recoverable amounts of the cash generating centers to which these goodwill are allocated. The carrying amount of goodwill allocated to the cash-generating units related to the retail segment amounted to PLN 668.768.455,16, while the wholesale segment was PLN 1.114.877.632,84.
The recoverable amount of individual centers was compared to the carrying amount defined as the total of the assets of the cash generating unit, decreased by current liabilities being part of the working capital. For each impairment test, the recoverable amount was determined as the value of the cash generating unit, based on the financial projections for 2019-2023. In order to determine the selected projection parameters, historical data for 2018 and approved by the Management Board of Eurocash S.A. plans for 2019-2023 were used.

In the retail segment projections, there was assumed a gradual increase in margin, increase in revenue per square meter due to the development and integration of store chains. In the wholesale segment, the stabilization of flows was assumed.
The discount rate used in cash flows is consistent with the weighted average cost of capital (WACC) calculated on the basis of the risk-free rate in line with the currency in which the financial projections are prepared. Other elements used in the calculation, such as the market risk premium, beta factor and capital structure are based on market data, proper for the industry in which Eurocash Group operates.
The weighted average cost of capital (WACC) was used as the discount rate (depending on the goodwill and the type of business connected with it, it ranged from 6.49% to 9.05%). As a result of the prepared analysis, it was confirmed that there is no need to recognize an impairment loss.

For retail segment, the deviation of the discount rate by 0.5% would reduce / increase the recoverable amount by approx. PLN 200m, while the change in the gross margin by 0.5% - respectively approx. PLN 500m.

For wholesale segment, the deviation of the discount rate by 0.5% would reduce / increase the recoverable amount by approx. PLN 700m, while the change in the gross margin by 0.5% - respectively approx. PLN 1.300m.

For both the wholesale and retail segments, the increase / decrease of the discount rate by 0.5 % as well as reducing / increasing the margin by 0.5 % does not lead to the impairment of the cash generating unit to which goodwill is assigned.

NOTE 8.
INVESTMENT PROPERTIES

Investment properties are presented below:

INVESTMENT PROPERTY AS AT 31.12.2018

	as at 31.12.2018	as at 31.12.2017
Opening balance	**972 799**	**988 495**
Depreciation	(15 696)	(15 696)
Closing balance	**957 103**	**972 799**

NOTE 9.
INVESTMENTS IN COMPANIES VALUED USING THE EQUITY METHOD

Investments in companies valued using the equity method are presented below:

INVESTMENTS IN EQUITY ACCOUNTED INVESTEES AS AT 31.12.2018

	as at 31.12.2018	as at 31.12.2017
Opening balance	**32 415 896**	**34 951 736**
Increase in reporting period:	**-**	**2 211 457**
Acquisition of shares	-	2 211 457
Decrease in reporting period:	**(4 882 304)**	**(4 747 298)**
Interest in losses	(4 882 304)	(4 747 298)
Closing balance	**27 533 591**	**32 415 896**

NOTE 10.

OTHER LONG-TERM INVESTMENTS

Other investments are presented below:

OTHER LONG-TERM INVESTMENTS AS AT 31.12.2018

	as at 31.12.2018	as at 31.12.2017
Loans granted to associates	184 945	30 253 086
Shares in other entities	436 480	531 570
Other long-term financial assets	3 000 000	-
	3 621 425	**30 784 656**

The loan was granted on market terms, with a repayment period of more than twelve months.

NOTE 11.
LONG-TERM RECEIVABLES

Long-term receivables are presented below:

LONG-TERM RECEIVABLES AS AT 31.12.2018

	as at 31.12.2018	as at 31.12.2017
Security deposits on rental agreements	13 447 785	6 524 435
Other long-term receivables	7 050 000	631 807
	20 497 785	**7 156 243**

NOTE 12.
OTHER LONG-TERM PREPAYMENTS

Other long-term prepayments are presented below.

OTHER LONG-TERM PREPAYMENTS AS AT 31.12.2018

	as at 31.12.2018	as at 31.12.2017
IT licences	15 548	-
Rentals	9 000	775 204
Insurance	700 000	-
Alcohol licences	1 046	1 666
Rental of premises - premium	381 122	356 221
Other prepayments	238 266	773 450
	1 344 982	**1 906 541**

NOTE 13.

INVENTORIES

Inventories are presented below:

INVENTORIES AS AT 31.12.2018

	as at 31.12.2018	as at 31.12.2017
Merchandise	1 290 134 444	1 320 023 150
Materials	1 867 162	231 064
Total inventories, including:	**1 292 001 606**	**1 320 254 214**
- carrying amount of inventory deposits securing payments of liabilities	258 000 000	258 000 000

ALLOWANCE FOR INVENTORIES IN THE PERIOD FROM 01.01 TO 31.12.2018

	for the period from 01.01.2018 to 31.12.2018	for the period from 01.01.2017 to 31.12.2017
Opening balance	**30 467 146**	**16 994 873**
- increase in the allowance during the period *	5 142 737	13 472 273
Closing balance	**35 609 883**	**30 467 146**

** net value*

NOTE 14.
TRADE AND OTHER RECEIVABLES

Trade receivables and other receivables are presented below:

TRADE RECEIVABLES AND OTHER RECEIVABLES AS AT 31.12.2018

	as at 31.12.2018	as at 31.12.2017
Trade receivables	**1 343 421 596**	**1 682 841 291**
Sales	783 291 630	1 044 850 240
Receivables from suppliers	497 220 207	584 584 460
Receivables from franchisees *	23 593 244	21 852 020
Franchise fees	26 689 117	17 958 454
Other trade receivables	74 319 283	74 463 090
Allowance for trade receivables	(61 691 885)	(60 866 973)
Current tax assets	**1 370 241**	**11 584 927**
Other receivables	**133 224 204**	**143 072 941**
VAT settlements	88 555 070	82 881 049
Receivables subject to legal proceedings	96 804 759	80 996 412
Allowance for other bad debts	(96 246 777)	(79 871 061)
Receivables from employees	1 202 892	1 933 143
Insurance claims receivables	4 455 526	7 461 534
Receivables from sales fixed assets	276 161	4 862 578
Other receivables (irrelevant individually)	38 176 573	44 809 285
Total receivables, including:	**1 478 016 041**	**1 837 499 160**
- short-term	1 478 016 041	1 837 499 160

* receivables from franchisees transferred to the financing concern trade receivables from franchisees that were covered by the contracts recourse factoring.

NOTE 15.

SHORT-TERM INVESTMENTS

Short-term investments are presented below:

OTHER SHORT-TERM INVESTMENTS AS AT 31.12.2018

	as at 31.12.2018	as at 31.12.2017
Loans granted to other entities	-	99 482
Shares in other entities	-	50 335 257
	-	**50 434 740**

The decrease in the value of other short-term financial assets results from the sale of shares, shares in other entities that were classified as assets held for sale.

NOTE 16.
SHORT-TERM PREPAYMENTS

Short-term prepayments are presented below

SHORT-TERM PREPAYMENTS AS AT 31.12.2018

	as at 31.12.2018	as at 31.12.2017
Alcohol licences	14 380 105	4 388 361
Rentals	5 022 565	6 876 882
Media	54 006	87 238
Insurances	5 378 948	4 881 207
Lease of commercial premises	1 978 914	2 665 581
Other settlements	2 089 613	541 889
Other short-term prepayments	9 416 116	22 726 906
	38 320 268	**42 168 063**

NOTE 17.
CASH AND CASH EQUIVALENS

Cash and cash equivalents are presented below:

CASH AND CASH EQUIVALENTS AS AT 31.12.2018

	as at 31.12.2018	as at 31.12.2017
Cash at bank	96 956 758	27 932 541
Cash on hand	6 600 971	9 207 830
Cash in transit	69 718 892	95 718 865
Cash on short-term deposits	22 815 178	69 367 413
Others	467 052	373 701
Total cash	**196 558 852**	**202 600 349**

NOTE 18.
SHARE CAPITAL

Share capital is presented below:

SHARE CAPITAL AS AT 31.12.2018

	as at 31.12.2018	as at 31.12.2017
Number of shares	139 163 286	139 163 286
Nominal value (PLN / share)	1	1
Share capital	**139 163 286**	**139 163 286**

As at 31 December 2017, share capital consisted of 139.163.286 ordinary shares, including:
- 127.742.000 A series ordinary shares to the bearer with the nominal value of 1 PLN each
- 3.035.550 B series ordinary shares to the bearer with the nominal value of 1 PLN each
- 2.929.550 C series ordinary shares to the bearer with the nominal value of 1 PLN each
- 830.000 D series ordinary shares to the bearer with the nominal value of 1 PLN each
- 1.414.900 E series ordinary shares to the bearer with the nominal value of 1 PLN each

- 537.636 F series ordinary shares to the bearer with the nominal value of 1 PLN each
- 997.000 G series ordinary shares to the bearer with the nominal value of 1 PLN each
- 941.000 H series ordinary shares to the bearer with the nominal value of 1 PLN each
- 253.000 I series ordinary shares to the bearer with the nominal value of 1 PLN each
- 482.650 M series ordinary shares to the bearer with the nominal value of 1 PLN each

The structure of shareholders with more than 5% of the total number of voting rights is presented below:

SHAREHOLDERS STRUCTURE

	31.12.2018				31.12.2017			
Shareholder	Number of shares	Share in share capital (%)	Number of votes	Share in total number of votes (%)	Number of shares	Share in share capital (%)	Number of votes	Share in total number of votes (%)
Luis Amaral (directly and indiriectly by Politra B.V.)	61 287 778	44,04%	61 287 778	44,04%	60 843 178	43,72%	60 843 178	43,72%
Azvalor Asset Management S.G.I.I.C. S.A.	13 605 690	9,78%	13 014 591	9,35%	7 498 451	5,39%	7 498 451	5,39%

Changes in the initial capital were as follows:

SHARE CAPITAL IN THE PERIOD FROM 01.01 TO 31.12.2018

	for the period from 01.01.2018 to 31.12.2018	for the period from 01.01.2017 to 31.12.2017
Share capital at the beginning of the period	**139 163 286**	**139 096 361**
Increase of share capital in the period	**-**	**66 925**
Incentive programs for employees	-	66 925
Share capital at the end of the period	**139 163 286**	**139 163 286**

In 2018, there were no ordinary shares issued (2017: 66.925 shares).

Loss on valuation of hedging transactions

Loss on valuation of hedging instruments includes the effective part of accumulated net change in fair value of hedging instruments that secure cash flows associated with the hedged transactions.

Dividend

On 6 June 2018, in accordance with the decision of the Ordinary General Meeting of Eurocash S.A., a dividend of PLN 0,73 per share was paid out of the reserve capital. The total amount of the paid dividend was PLN 101.589.198,78.

NOTE 19.
SHARE OPTIONS

Treasury share options are presented below:

OPTIONS FOR SHARES IN THE PERIOD FROM 01.01 TO 31.12.2018

	Number of options	Weighted average exercise prices (PLN/share)
Existing at the beginning of the reporting period	2 906 250	32,51
Granted in the reporting period	-	-
Exercised in the reporting period	-	-
Expired in the reporting period	-	-
Existing at the end of the reporting period	2 906 250	32,51
including:		
Exercisable at the end of the period	2 906 250	32,51

On April 25, 2017 by Resolutions of the Ordinary General Meeting of Eurocash S.A. a decision was made to issue shares as part of Employee Motivation and Bonus Programs for 2017-2019 (Programs XI - XVI).

Incentive programs were introduced in connection with the intention to continue incentive programs from previous years for managers, executives and persons who are fundamental to the activities of the Company and the Eurocash Group and to create the basis for enabling outstanding employees to take up shares in the Company as part of the bonus.
Incentive programs provide for issuance of up to 4,200,000 shares (approximately 3% of the current number of shares). The period of exercise of the options (subscription rights for convertible bonds) is 3-5 years. The issue price of shares in Incentive Programs will be equal to the average price of Eurocash shares on the Warsaw Stock Exchange on the day of quotations immediately preceding the resolution of the General Meeting on the establishment of these Programs.
The programs cover a total of 6 parts of 700,000 shares:

- 700,000 ordinary shares of the "XI Program" to be implemented in the period from April 1, 2020 to April 30, 2022,
- 700,000 ordinary shares of the "XII Program" to be implemented in the period from April 1, 2020 to April 30, 2022,
- 700,000 ordinary shares of the "XIII Program" to be implemented in the period from April 1, 2021 to April 30, 2023,
- 700,000 ordinary shares of the "XVI Program" to be implemented in the period from April 1, 2021 to April 30, 2023,
- 700,000 ordinary shares of the "XV Program" to be implemented in the period from April 1, 2022 to April 30, 2024,
- 700,000 ordinary shares of the "XVI Program" to be implemented in the period from April 1, 2022 to April 30, 2024,

In the year ended on 31.12.2018, no options were exercised.

In the year ended on 31.12.2017, options were exercised for 66,925 ordinary series M shares issued as part of the Eighth Incentive and Bonus Program for Employees for 2012, 2013 and 2014, with a value of PLN 38 each, which resulted in a total cash inflow of PLN 2,543,150.

The fair value of employee shares programs is estimated as at the date of granting options based on the binominal model.

NOTE 20.
PROVISIONS AND ACCRUALS

Provisions and accruals are presented below:

PROVISIONS AND ACCRUALS IN THE PERIOD FROM 01.01 TO 31.12.2018

	Employee benefits	Accrual for costs of transport	Accrual for advertising costs	Accrual for wholesalers income commission
Provisions and accruals as at 01.01.2017	**89 510 914**	**6 345 152**	**31 253 607**	**892 927**
Increase due to joining of subsidary	11 524 746	-	991 572	-
Increases*	20 898 780	1 336 035	4 836 243	-
Decreases*	(12 850 300)	-	-	(794 527)
Provisions and accruals as at 31.12.2017, including:	**109 084 141**	**7 681 187**	**37 081 422**	**98 400**
- short-term	102 599 974	7 681 187	37 081 422	98 400
- long-term	6 484 166	-	-	-
Provisions and accruals as at 01.01.2018	**109 084 141**	**7 681 187**	**37 081 422**	**98 400**
Increase due to acquisition	18 920 290	-	-	-
Increases*	6 529 732	-	5 648 597	-
Decreases*	(17 616 797)	(616 673)	-	(20 177)
Provisions and accruals as at 31.12.2018, including:	**116 917 365**	**7 064 513**	**42 730 020**	**78 223**
- short-term	111 240 638	7 064 513	42 730 020	78 223
- long-term	5 676 727	-	-	-

** net value*

PROVISIONS AND ACCRUALS IN THE PERIOD FROM 01.01.2014 TO 31.12.2018 (continued)

	Provision for interests	Accrual for costs of media	Other	**Total**
Provisions and accruals as at 1 January 2017	**11 393 608**	**8 423 884**	**61 300 763**	**209 120 854**
Increase due to joining of subsidary	5 225 585	861 109	6 299 450	24 902 462
Increases*	-	-	13 098 071	40 169 129
Decreases*	(7 753 954)	(918 387)	-	(22 317 168)
Provisions and accruals as at 31 December 2017, including:	**8 865 239**	**8 366 606**	**80 698 284**	**251 875 278**
- short-term	8 865 239	8 366 606	79 586 137	244 278 965
- long-term	-	-	1 112 147	7 596 313
Provisions and accruals as at 1 January 2018	**8 865 239**	**8 366 606**	**80 698 284**	**251 875 278**
Increase due to acquisition	6 822 841	-	-	25 743 131
Increases*	-	1 015 217	74 977 143	88 170 690
Decreases*	(674 268)	-	-	(18 927 916)
Provisions and accruals as at 31 December 2018, including:	**15 013 812**	**9 381 823**	**155 675 427**	**346 861 182**
- short-term	15 013 812	9 381 823	154 732 289	340 241 317
- long-term	-	-	943 138	6 619 865

** net value*

PROVISIONS AS AT 31.12.2018

	as at 31.12.2018	as at 31.12.2017
Employee benefits	116 917 365	109 084 141
Accrual for advertising costs	42 730 020	37 081 422
Accrual for intrests	15 013 812	8 865 239
Accrual for costs of media	9 381 823	8 366 606
Accrual for ligitations	4 230 476	9 841 553
Accrual for advisory and audit	13 756 778	4 901 130
Accrual for costs of transport	7 064 513	7 681 187
Accrual for rental costs	6 358 860	5 907 026
Accrual for agent's commisions	78 223	98 400
Accural for IT modernist w orks	1 034 806	592 159
Accrual for bonuses	8 620 321	10 039 045
Accrual for the costs of liquidation of the locations	1 719 326	1 966 157
Accrual for concessions	1 306 980	948 798
Other provisions and accruals	118 647 879	46 502 416
	346 861 183	**251 875 278**
- long-term	6 619 865	7 596 313
- short-term	340 241 317	244 278 965

Provisions and liabilities for employee benefits

Provisions and liabilities for employee benefits include provision for retirement benefits 5.965.094 PLN (the remaining part mainly pay liabilities and provisions for holidays).

Provision for retirement benefits was calculated using the actuary. The actuarial estimations include discount rate of 2.8%, 3.2% wage decrease.

Provision for the costs of advertising and marketing

Provision for advertising and marketing costs include mainly provisions related to the allocation of the marketing services provided by the receivers.

It is expected that these provisions will be realized within 12 months from 31 December 2018.

Provision for interest

Provision applies to the estimated costs associated with unpaid liabilities for which contractual dates passed as at 31 December 2018.

It is expected that the reserve will be completed within 12 months from 31 December 2018.

NOTE 21.
TRADE AND OTHER PAYABLES

Trade and other payables are presented below:

TRADE AND OTHER PAYABLES AS AT 31.12.2018

	as at 31.12.2018	as at 31.12.2017
Trade payables	**3 813 380 430**	**3 940 899 244**
Payables due to purchase of goods	3 563 170 468	3 761 898 091
Payables due to services received	182 667 112	122 974 512
Payables due to reversal of remuneration	67 542 851	56 026 641
Current tax liabilities	**55 191 844**	**7 717 339**
Other payables	**174 596 713**	**151 842 698**
VAT settlements	8 876 185	15 558 837
Liabilities due to purchases of assets	21 964 847	14 428 649
Liabilities due to social securities	49 748 828	35 407 849
Liabilities due to taxes and insurances	14 332 794	13 061 638
Liabilities from deposit	4 465 226	3 377 006
Option for purchase/selling the shares	57 363 613	54 712 448
Other payables	17 845 219	15 296 270
Total payables, including:	**4 043 168 987**	**4 100 459 281**
- long-term	63 940 083	58 148 822
- short-term	3 979 228 904	4 042 310 458

The Group assessed the liabilities covered by reverse factoring and based on this judgment classified the liabilities due to the so-called reverse factoring. reverse factoring as a liability for deliveries and services, because in connection with the handing over of the factoring commitments, there were no significant changes in the nature of these liabilities, in particular significant changes to the terms of payment. As part of the balance of trade liabilities as at December 31, 2018, the value of balances covered by the vendor financing program in the amount of PLN 1,618,297,269 was included, while as at December 31, 2017, the respective balance amounted to PLN 1,772,471,670.

As part of the settlement of the acquisition of 50% shares in Firma Rogala Sp. o.o., FHC-2 Sp. o.o. and Madas Sp. o.o., in these consolidated financial statements have been included options to repurchase the remaining 50% of shares by Eurocash S.A. granted by Eurocash S.A. to the other shareholders of Firma Rogala, FHC-2 and Madas. Options can be exercised at the earliest after 3 years from the date of acquisition. These options, valuated as at 31.12.2018 in the total amount of PLN 57.363.613 were included in other long-term liabilities and the corresponding entry in equity.

NOTE 22.
LOANS AND BORROWINGS

Loans and borrowings are presented below:

LOANS AND CREDITS AS AT 31 DECEMBER 2018

	Credit destination	Liability amount	Interest rate	Costs for the period from 01.01.2018 to 31.12.2018
Credits				
Bank 1	Loan for financing current activity	400 000 000	WIBOR + bank's margin	13 994 247
Bank 2	Overdraft for financing of current activities	8 116 533	WIBOR + bank's margin	-
Bank 3	Overdraft for financing of current activities	34 809 741	WIBOR + bank's margin	1 305 722
Bank 4	Overdraft for financing of current activities	6 358 445	WIBOR + bank's margin	101 512
Bank 5	Overdraft for financing of current activities	4 395 937	WIBOR + bank's margin	80 320
Bank 6	Overdraft for financing of current activities	2 008 628	WIBOR + bank's margin	81 588
Bank 7	Overdraft for financing of current activities	87 065 351	WIBOR + bank's margin	1 875 217
Total loans and credits		**542 754 634**		**17 438 606**
- short-term		542 754 634		

In addition, the Company has a line of credit in the form of a negative balance to the amount of 700 mln PLN in bank syndicate. As at 31.12.2018, the limit was reached to the level PLN 400 m.

Eurocash Serwis Sp. o.o. has a flexible credit with a limit to the amount of PLN 110 m. As at 31.12.2018, the limit was reached to the level PLN 87,2 m.

In accordance to the credit agreements, the Group is obligated to maintain certain financial ratios at a defined level and for the activity of indicated in the contracts framework. During the reporting period the Group performed all the terms of loan agreements and there was no case of violation. What is more, according to the credit agreements the Group has issued the securities, details of which are expanded in Note 34.

NOTE 23.
OTHER FINANCIAL LIABILITIES

Other financial liabilities are presented below:

FINANCIAL LIABILITIES AS AT 31.12.2018

	as at 31.12.2018	as at 31.12.2017
Liabilities arising from the issue of bonds	-	219 533 443
Finance lease liabilities	8 469 417	10 714 936
Liabilities related to financing of franchisees	23 593 244	21 852 020
Valuation of hedging instruments	3 695 592	2 270 095
	35 758 253	**254 370 494**
- long-term	3 003 350	4 932 920
- short-term	32 754 903	249 437 574

Payables due to financing of franchisees relate to reverse factoring agreements due to trade receivables.

On June 20, 2013, Eurocash issued bonds with a total nominal value of PLN 140 million within the framework of the bonds program, up to PLN 500 million. The rate of interest for the Bonds shall be determined on the basis of WIBOR for six-month deposits plus the bank's margin. Bonds redemption date is June 20, 2018. The bonds were secured with sureties granted by subsidiaries, up to the amount of PLN 168m. Bonds liabilities are presented in the Group's statement of financial position, under Long-term payables.

Due to the assumptions, on 20 June 2018, all bonds issued in this program were bought back. On the same day, the bondholders also received interest payments for the last interest period of the program.

FINANCE LEASE AS AT 31.12.2018

	as at 31.12.2018 minimum fees	as at 31.12.2018 present value of minimum lease payments	as at 31.12.2017 minimum fees	as at 31.12.2017 present value of minimum lease payments
Future minimum lease payments due to finance lease agreements				
Less than one year	5 253 924	5 142 497	6 163 460	5 873 595
Betw een one and five years	3 372 286	3 326 920	5 000 422	4 841 341
More than five years	-	-	-	-
Total future minimum lease payments due to finance lease agreements	**8 626 211**	**8 469 417**	**11 163 883**	**10 714 936**
Finance costs	156 794	X	448 947	X
Present value of minimum lease payments due to finance lease agreements	**8 469 417**	**8 469 417**	**10 714 936**	**10 714 936**

OPERATING LEASE

The Group recognized operating lease contracts concerning lease or rental of premises and vehicles and others under which the leased assets can be used by the lessee in exchange for a charge or a series of charges and no transfer of risk or benefits arising from the ownership of an asset is made.

The contracts relate lease and rental of space for commercial activities such as sales of groceries, cigarettes, alcohols, household chemicals and non-food merchandise. The Group has the contracts relate to the use of storage space for logistics and transport purposes, as well as office space for administrative activities of headquarters' employees. Moreover, the Group recognized an operating lease contracts related to lease of vehicles used by the lessee in the current operations.
For contracts relating to wholesale and retail space, the price is defined per 1 square meter. Prices are adjusted by annual rate of inflation published by the Central Statistical Office, fluctuations of property tax charges, fluctuations of perpetual usufruct charges, and fluctuations of local charges applicable to leased/rented properties. The final amount payable is a product of the number of square meters of the given space multiplied by the price per square meter.
Regarding the lease of storage and office space at the distribution center in Komorniki, two fixed monthly lease charges were established. The first charge is valid for the first two years of contract and the other charge is valid in next 14 years thereafter.
Term and termination conditions stated in the contracts say that unless either Party notifies the other Party of the contract of its decision not to extend the contract during the 12 months period preceding date of the termination of the contract, then the contract shall be extended automatically for the next period (the same as per the original contract).

Specification of minimum operating lease charges is presented below:

OPERATING LEASE AGREEMENTS AS AT 31.12.2018

	as at 31.12.2018	as at 31.12.2017
Future minimum lease payments due to operating lease agreements		
Less than one year	322 313 044	223 056 390
Between one and five years	917 834 658	663 784 084
More than five years	913 634 039	600 379 441
Total future minimum lease payments due to operating lease agreements	**2 153 781 741**	**1 487 219 915**

Operating lease payments for 2018 amounted to PLN 336.201.192 (2017: PLN 270.450.790).
The value of minimum fees for contracts concluded for an indefinite period has been estimated based on the 3-month period of validity of these contracts, which as at 31 December 2018 have not been discounted.

The value of minimum fees for contracts concluded for an indefinite period was estimated based on the 3-month duration of these contracts.

Issues regarding changes in the operational leasing approach resulting from the implementation of IFRS 16 "Leasing" are included in Pt 1.3 - Additional Information to the separate financial statements for the period from 01.01. until 31 December 2018.

NOTE 24.
INCOME TAX

Income tax for the reporting period is presented below:

INCOME TAX FOR THE PERIOD FROM 01.01 TO 31.12.2018 (main components)

	for the period from 01.01.2018 to 31.12.2018	for the period from 01.01.2017 to 31.12.2017
Income statement		
Current income tax	(87 523 775)	(37 776 282)
Deferred tax	43 624 796	(12 096 098)
Total income tax	**(43 898 979)**	**(49 872 379)**

TAX RECONCILIATION FOR THE PERIOD FROM 01.01 TO 31.12.2018

	from 01.01.2018 to 31.12.2018	from 01.01.2017 to 31.12.2017
Profit before tax	**155 551 250**	**20 312 674**
Income tax calculated base on 19% income tax rate	(29 234 938)	(3 185 794)
Negative temporary differences, for which the deferred tax asset was recognized in current year	(25 228 517)	-
Adjustment of current tax of previous years	(320 061)	(1 778 119)
Asset from tax loss	23 806 479	(13 272 743)
Impact of paid VAT on security of tax liabilities	-	(20 680 363)
Write-off for asset from trademarks	-	(7 650 008)
Tax effect of trademarks	-	8 360 000
Other differences, including PFRON	(12 921 943)	(11 665 353)
Income tax in income statement	**(43 898 979)**	**(49 872 379)**
Effective tax rate	28,22%	245,52%

UNCERTAIN TAX TREATMENT

Regulations regarding VAT, corporate profits tax and social security contributions are subject to frequent changes. These changes result in there being little point of reference and few established precedents that may be followed. The binding regulations also contain uncertainties, resulting in differences in opinion regarding the legal interpretation of tax regulations both between government bodies, and between government bodies and companies.

Tax and other settlements (e.g. customs or foreign currency settlements) may be subject to inspection by administrative bodies authorised to impose high penalties and fines, and any additional taxation liabilities calculated as a result must be paid together with high interest. The above circumstances mean that tax exposure is greater in Poland than in countries that have a more established taxation system.

Accordingly, the amounts shown in the financial statements may change at a later date as a result of the final decision of the tax authorities.

In the previous reporting periods, companies within the Group carried out transactions and participated in restructuring processes, which may be the subject of analysis and control of tax authorities.

On 15 July 2016, amendments were made to the Tax Ordinance to introduce the provisions of General Antiavoid payment of tax in Poland. GAAR define tax evasion as an activity performed mainly with a view to realising tax gains, which is contrary, under given circumstances, to the subject and objective of the tax law. In accordance with GAAR, an activity does not bring about tax gains, if its modus operandi was false. Any instances of (i) unreasonable division of an operation (ii) involvement of agents despite lack of economic rationale for such involvement, (iii) mutually exclusive or mutually compensating elements, as well as (iv) other activities similar to those referred to earlier may be treated as a hint of artificial activities subject to GAAR. New regulations will require considerably greater judgment in assessing tax effects of individual transactions.

The GAAR clause should be applied to the transactions performed after clause effective date and to the transactions which were performed prior to GAAR clause effective date, but for which after the clause effective date tax gains were realised or continue to be realised. The implementation of the above provisions will enable Polish tax authority challenge such arrangements realised by tax remitters as restructuring or reorganization.

The Group accounts for current and deferred tax assets and liabilities based on the requirements of IAS 12 Income taxes, based on taxable profit (tax loss), taxable base, carry-forward of unused tax losses and carry-forward of unused tax credits, and tax rates, while considering the assessment of uncertainty related to tax settlements. If uncertainty exists as to whether and to what extent tax authority will accept individual tax treatments of made transactions, the Group discloses these settlements while accounting for uncertainty assessment.

On 19 June 2017 a report from the tax control was delivered to Eurocash S.A. in which the tax authorities questioned the possibility of making depreciation write-offs concerning the values of certain trademarks. The tax depreciation costs amounted in the year 2011 to PLN 41 million.

Based on the external experts' tax analysis on 5 July 2017 the Company subjected its response to the tax report.

On 28 September 2017, the Head of the Customs and Revenue Office for Wielkopolska Region in Poznań issued a decision to Eurocash S.A., in which he stated in the case above that the Company had an understatement of tax liability for 2011 of PLN 8 million. On the basis of an external legal expert analysis, on 17 October 2017, the Company appealed against this decision. It mentions a number of arguments for the correctness of the tax settlements made by the Company, including confirmation of the correctness of the settlements through the positive interpretations of tax law. As a result, as at 31 December 2018, the Management Board of the Company has no confirmation for creating of any provisions due to these interpretations.

On 28 February 2018, the Head of the Customs and Revenue Office for Wielkopolska Region in Poznań initiated an audit of corporate income tax for 2016. As at 31 December 2018, the audit was not completed.

THE DAMAGE SUFFERED BY THE COMPANY IN THE PREVIOUS YEAR AS A RESULT OF THE ACTIVITIES OF EXTERNAL ENTITIES PARTICIPATING IN THE VAT FRAUD MECHANISM

The audit of VAT settlements by the Eurocash Group companies did not reveal any irregularities of a nature identical to the irregularities disclosed in 2017. Despite the above, taking into account the turnover of the remaining companies of the Group, gained on transactions concerning intra-Community delivery of goods, the risks associated with such potential irregularities are not material.

Eurocash S.A. stopped execution of such transactions concerning intra-Community delivery of goods.

On 30 January 2018, the Prosecutor of the Regional Prosecutor's Office in Poznań commenced the investigation of the notification of 24 August 2017.

NOTE 25.
DEFFERED TAX

Deferred tax is presented below:

DEFERRED TAX IN THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2018

	Statement of financial position		Income statement		Statement of comprehensive income	
	as at 31.12.2018	as at 31.12.2017	for the period from 01.01.2018 to 31.12.2018	for the period from 01.01.2017 to 31.12.2017	for the period from 01.01.2018 to 31.12.2018	for the period from 01.01.2017 to 31.12.2017
Deferred tax liabilities						
- difference betw een tax and carrying amount of fixed assets	50 505 380	38 055 004	12 450 376	15 899 493	-	-
- not invoiced income	53 117 295	78 935 561	(25 818 266)	16 305 971	-	-
- revenues from accrued interests	1 448 354	1 089 613	358 742	151 920	-	-
- financial lease liabilities	4 598 141	5 964 670	(1 366 529)	5 411 222	-	-
- unrealized foreign exchange differences	-	-	-	(10)	-	-
- income from contractual penalties unpaid	1 277 515	1 164 663	112 853	136 296	-	-
- other	2 772 137	2 414 539	357 598	(6 612 713)	-	-
Gross deferred tax liabilities	**113 718 822**	**127 624 050**	**(13 905 227)**	**31 292 178**	**-**	**-**

DEFERRED INCOME TAX IN THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2018 (continued)

	Statement of financial position		Income statement		Statement of comprehensive income	
	as at 31.12.2018	as at 31.12.2017	for the period from 01.01.2018 to 31.12.2018	for the period from 01.01.2017 to 31.12.2017	for the period from 01.01.2018 to 31.12.2018	for the period from 01.01.2017 to 31.12.2017
		-				
Deferred tax assets						
- bonuses	7 268 996	12 694 612	5 425 616	4 901 063	-	-
- allowance for inventories	4 487 122	4 429 025	(58 097)	(2 220 008)	-	-
- allowance for bad debts	23 312 657	20 347 299	(2 965 357)	(692 815)	-	-
- Impairment loss of fixed assets	703 071	1 883 634	1 180 563	(1 369 660)	-	-
- tax losses from prior years	31 330 250	18 408 163	(12 922 087)	(10 496 271)	-	-
- holiday accrual	6 548 847	7 474 850	926 004	(4 069 546)	-	-
- accrual for employees' bonuses	3 351 423	3 744 853	393 430	298 728	-	-
- unpaid payroll and social securities	4 683 068	4 628 969	(54 099)	(1 971 030)	-	-
- provision for retirement benefits, disability benefits, death benefits	1 135 338	958 996	(176 341)	(227 499)	-	-
- provisions for legal disputes	831 597	1 474 269	642 672	614 893	-	-
- accruals	27 752 234	15 796 731	(11 955 502)	(3 432 726)	-	-
- finance lease liabilities	158 607	181 985	23 378	(314 642)	-	-
- difference between tax and accounting value of fixed assets and intangible assets	-	-	-	10 487 818	-	-

DEFERRED INCOME TAX IN THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2018 (continued)

	Statement of financial position		Income statement		Statement of comprehensive income	
	as at 31.12.2018	as at 31.12.2017	for the period from 01.01.2018 to 31.12.2018	for the period from 01.01.2017 to 31.12.2017	for the period from 01.01.2018 to 31.12.2018	for the period from 01.01.2017 to 31.12.2017
Deferred tax assets						
- accrued interest on trade payables	310 828	1 032 221	721 393	(84 846)	-	-
- accrued interest on loans and borrow ings	-	-	-	960 929	-	-
- other accruals	46 355 875	35 454 734	(10 901 141)	(11 724 616)	-	-
- bonus allocated to inventories	-	-	-	144 146	-	-
Gross deferred tax assets	**158 229 912**	**128 510 344**	**(29 719 569)**	**(19 196 081)**	**-**	**-**
Allow ance of deferred tax asset	-	-	-	-	-	-
Deferred tax assets	**158 229 912**	**128 510 344**	**(29 719 569)**	**(19 196 081)**	**-**	**-**
Deferred income tax effect			**(43 624 796)**	**12 096 097**	**-**	**-**
Net deferred tax liabilities	**5 954 698**	**25 430 471**	**X**	**X**	**X**	**X**
Net deferred tax assets	**50 465 787**	**26 316 764**	**X**	**X**	**X**	**X**

NOTE 26.
SALES IN THE REPORTING PERIOD

Sales are presented below:

SALE IN THE PERIOD FROM 01.01 TO 31.12.2018

	for the period from 01.01.2018 to 31.12.2018	for the period from 01.01.2017 to 31.12.2017
		** restated
Sale of goods	22 680 894 721	20 713 003 600
Sale of services	147 571 330	131 558 391
Sales of materials	4 422 347	4 902 971
Total sale	**22 832 888 398**	**20 849 464 962**

** Note 2

NOTE 27.
COSTS BY TYPE

Costs by type are presented below:

COSTS BY TYPE IN THE PERIOD FROM 01.01 TO 31.12.2018

	for the period from 01.01.2018 to 31.12.2018	for the period from 01.01.2017 to 31.12.2017
		* restated
Depretiation	204 236 151	183 317 313
Materials and energy	193 704 565	161 896 911
External services	1 004 775 402	862 747 908
Taxes and charges	47 526 844	40 975 783
Salaries	1 022 051 881	852 701 735
Social security and other benefits	195 490 940	171 306 480
Other costs by type	67 163 660	46 137 289
Costs by type	**2 734 949 443**	**2 319 083 418**
including:		
Cost of goods sold	2 346 015 922	1 945 594 470
General and administrative expenses	388 933 521	373 488 948

* Note 3

NOTE 28.
OTHER OPERATING INCOME AND EXPENSES

Other operating income and expenses are presented below:

OTHER OPERATING INCOME AND EXPENCES 01.01 TO 31.12.2018

	for the period from 01.01.2018 to 31.12.2018	for the period from 01.01.2017 to 31.12.2017
Other operating income	**134 285 628**	**75 180 146**
Penalties for suppliers	14 326 145	14 650 736
Other sales	11 706 209	6 615 407
Sub-lease of premises	3 451 644	4 063 678
Profit on sales of fixed assets	1 004 319	6 576 724
Compensation received	1 286 810	5 326 089
Revenus from transport services	264 969	96 336
Reversal of allowance for bad debts	1 099 255	1 195 368
Reversal of allowance for inventories	532 973	-
Expired litigations and payables	3 277	2 930 952
Car rentals	136 587	124 817
Profit from the sale of shares in subsidiaries*	74 774 054	-
Donation received	1 865 013	347 374
Reversal of provisions for closed locations	-	1 073 034
Other (irrelevant individually)	23 834 374	32 179 631
Other operating expenses	**(66 839 973)**	**(158 419 741)**
Loss from disposals of property, plant and equipment	(10 290 556)	(2 899 645)
Loss from impairment of trade receivables and other financial assets	(20 369 769)	(9 299 517)
Paid penalties	(900 598)	(1 180 553)
Ligitations	(5 681 514)	(90 500)
Security for VAT liabilities	-	(114 400 861)
Other (irrelevant individually)	(29 597 536)	(30 548 665)
Other net operating income / expenses	**67 445 655**	**(83 239 595)**

* Note 2

NOTE 29.
FINANCE INCOME AND COSTS

Finance income and costs are presented below:

FINANCE INCOME AND COSTS IN THE PERIOD FROM 01.01 TO 31.12.2018

	for the period from 01.01.2018 to 31.12.2018	for the period from 01.01.2017 to 31.12.2017
Finance income	**35 915 044**	**29 035 301**
Revenues from discounts	11 339 123	7 765 750
Interest	11 626 623	4 234 478
Foreign exchange gains	38 341	560 998
Dividends	597 821	882 010
Revenues from the sale of short-term investments	241 311	5 248 005
Other financial income (irrelevant individually)	12 071 826	10 344 060
Finance costs	**(89 856 973)**	**(66 969 577)**
Interest	(82 252 975)	(52 174 613)
Bank fees	(4 741 045)	(5 854 066)
Foreign exchange losses	(625 563)	(324 355)
Other financial expenses (irrelevant individually)	(2 237 390)	(8 616 543)
Net finance expenses	**(53 941 930)**	**(37 934 276)**

NOTE 30.
EARNINGS PER SHARE

Earnings per share are presented below:

EARNINGS PER SHARE FOR THE PERIOD FROM 01.01 TO 31.12.2018

	for the period from 01.01.2018 to 31.12.2018	for the period from 01.01.2017 to 31.12.2017
Earnings		
Profit (loss) for the period attributable to the Owners of the Company	109 644 174	(33 311 574)
Number of issued shares		
Weighted average number of shares	139 163 286	139 158 564
Dilution efect of potential number of shares:		
Convertible bonds	-	-
Weighted average number of shares (to calculate diluted earnings per share)	139 163 286	139 158 564
Earnings per share		
- basic	0,79	(0,24)
- diluted	0,79	(0,24)

Calculation of weighted average number of shares

The weighted average number of shares determined in order to calculate the value of basic earnings per share is calculated as the weighted average number of ordinary shares outstanding during the reporting period.

Calculation of weighted average diluted number of shares

Weighted average number of shares determined for the purpose of calculating the value of diluted earnings per share includes the issued bonds convertible to shares and is calculated as the total of the weighted average number of ordinary shares plus the potential free of charge issue of ordinary shares .

Free of charge issue of ordinary shares means the difference between the number of ordinary shares which would be issued at the time of conversion of all diluting bonds convertible to ordinary shares, and the number of ordinary shares which would be issued at market value during the period.

The weighted average number of shares for the purpose of calculating diluted earnings per share was not adjusted for conversion of convertible bonds conducted during the periods following the date ending the reporting period on non-arm's length basis.

Description of factors diluting the number of shares

Earnings per share are diluted as a consequence of a realization of share option programs described in Note 19.

NOTE 31.
REMUNERATION AND OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Members of the Management Board and the Supervisory Board are considered as key management personnel.

REMUNERATION OF MEMBERS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD OF THE PARENT IN THE PERIOD FROM 01.01 TO 31.12.2018

	Basic salary	Other benefits	Managerial optoins	Total
Remuneration of the Members of the Management Board				
Luis Amaral	480 000	17 316	-	497 316
Rui Amaral	1 560 000	17 316	-	1 577 316
Arnaldo Guerreiro	1 020 000	28 836	-	1 048 836
Pedro Martinho	1 200 000	28 906	-	1 228 906
Katarzyna Kopaczew ska	960 000	17 316	-	977 316
Jacek Ow czarek	1 080 000	28 836	-	1 108 836
Przemysław Ciaś	775 667	34 215	-	809 882
Paw eł Musiał	140 000	20 532	-	160 532
	7 215 667	**193 275**	**-**	**7 408 941**
Remuneration of the Members of the Supervisory Board				
Joao Borges de Assuncao	213 975	-	-	213 975
Eduardo Aguinaga de Moraes	67 515	-	-	67 515
Francisco José Valente Hipólito dos Santos	213 975	-	-	213 975
Hans Joachim Körber	213 975	-	-	213 975
Jacek Szw ajcow ski	213 975	-	-	213 975
Alicja Kornasiew icz	147 055	-	-	147 055
	1 070 470	**-**	**-**	**1 070 470**

REMUNERATION OF MEMBERS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD OF THE PARENT IN THE PERIOD FROM 01.01 TO 31.12.2017

	Basic salary	Other benefits	Managerial optoins	Total
Remuneration of the Members of the Management Board				
Luis Amaral	480 000	17 437	-	497 437
Rui Amaral	1 560 000	1 109 857	-	2 669 857
Arnaldo Guerreiro	1 020 000	385 957	-	1 405 957
Pedro Martinho	1 200 000	29 402	-	1 229 402
Katarzyna Kopaczewska	795 000	353 437	-	1 148 437
Jacek Owczarek	1 042 105	406 957	-	1 449 062
Przemysław Ciaś	747 000	279 916	-	1 026 916
	6 844 105	**2 582 964**	**-**	**9 427 069**
Remuneration of the Members of the Supervisory Board				
Joao Borges de Assuncao	212 305	-	-	212 305
Eduardo Aguinaga de Moraes	212 305	-	-	212 305
Francisco José Valente Hipólito dos Santos	212 305	-	-	212 305
Hans Joachim Körber	212 305	-	-	212 305
Jacek Szwajcowski	212 305	-	-	212 305
	1 061 525	**-**	**-**	**1 061 525**

NOTE 32.
EMPLOYMENT

Number of employees as at 31.12.2018 is presented below:

NUMBER OF EMPLOYEES AS AT 31.12.2018

	as at 31.12.2018	as at 31.12.2017
Number of employees	21 873	17 664
Number of full-time jobs	21 674	17 478

Employment structure as at 31.12.2018 is presented below:

EMPLOYMENT STRUCTURE AS AT 31.12.2018

	Wholesale discounts and distribution centres	Head office	Total
Number of employees	19 623	2 250	**21 873**
Number of full-time jobs	19 442	2 232	**21 674**

Data concerning employee turnover ratios as at 31.12.2018 is presented below:

EMPLOYEE TURNOVER IN THE PERIOD FROM 01.01 TO 31.12.2018

	for the period from 01.01.2018 to 31.12.2018	for the period from 01.01.2017 to 31.12.2017
Acquisitions	4 662	2 872
Number of hired employees	6 198	4 757
Number of dismissed employees	(6 651)	(4 782)
	4 209	**2 847**

NOTE 33.
DATA OF ITEMS NOT INCLUDED IN THE FINANCIAL STATEMENTS

CONTINGENTIES AS AT 31.12.2018

	Beneficiary	Title	Currency	as at 31.12.2018	as at 31.12.2017
1.	Bank 1 *	Surety for the obligations due to the "Franchise partners financing program" for the Franchisee Delkatesy Centrum	PLN	4 465 792	7 653 291
				4 465 792	**7 653 291**

* debt value as at balance sheet date

BANK GUARANTEES AS AT 31 DECEMBER 2018 - SECURITIES FOR RENT LIABILITIES

	The Issuer	Title	Currency	as at 31.12.2018	as at 31.12.2017
1	Bank 1	Security payments to suppliers	PLN	-	16 000 000
2	Bank 2	Security for liabilities due to Agency agreement	PLN	-	200 000
3	Bank 3	Security for rent liabilities	PLN	1 961 687	6 986 764
4	Bank 4	Security for rent liabilities	PLN*	36 349 913	28 627 184
5	Bank 5	Security for excise duty	PLN	300 000	2 700 000
6	Bank 6	Security for using of the national roads	PLN	620 100	620 100
7	Bank 7	The liabilities of the promotion lottery	PLN	1 547 098	457 889
8	Bank 8	Security payments to suppliers	PLN	56 615 000	113 219 000
9	Bank 9	Security payments to suppliers	PLN*	15 414 936	4 170 900
10	Bank 10	Security payments to suppliers	PLN	46 000 000	-
11	Bank 11	Security for rent liabilities	PLN	999 747	-
12	Bank 12	Security payments to suppliers	PLN	1 970 000	-
13	Bank 13	Security for rent liabilities	PLN	9 097 518	-
				170 875 999	**172 981 837**

* - Guarantee in EUR is translated into PLN at the average exchange rate of NBP:
as at 31.12.2018: 1 EUR = 4,3000 PLN,
as at 29.12.2017: 1 EUR = 4,1709 PLN.

NOTE 34.
COLLATERALS

SECURITY ON ASSETS AS AT 31.12.2018

Title	Secured property	as at 31.12.2018	as at 31.12.2017
Security on the credit line agreement *	Deposit on inventories Eurocash S.A.	90 000 000	90 000 000
Guarantee on securing the payment for suppliers*	Deposit on inventories Eurocash Serw is Sp. z o.o.	80 000 000	80 000 000
Security on the credit line agreement *	Deposit on inventories Eurocash S.A.	88 000 000	88 000 000
Security on the consolidated loan agreement to the amount 700.000.000 PLN *	Deposit on inventories Eurocash Serw is Sp. z o.o.	9 547 300	9 547 300
Security on the consolidated loan agreement to the amount 700.000.000 PLN *	Deposit on inventories Eurocash Franczyza Sp. z o.o.	3 800 000	3 800 000
Financial leasing agreements (due to net value of fixed assets at the balance sheet date)	Ow nership of fixed assets in financial leasing	1 069 455	3 971 837
		272 416 755	**275 319 137**

* Nominal value of the minimum security

NOTE 35.
FINANCIAL RISK MANAGEMENT

a. General information

The Group has exposure to the following risks from its use of financial instruments:

a) credit risk
b) liquidity risk
c) market risk
d) operation risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.
The Parent's Management Board has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Management Board on its activities.

The Risk Management Committee is established to identify and analyse the risks faced by the Group, 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 Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Internal Audit Department operating in the Parent oversees how management monitors compliance with the Group's risk management policies and procedures. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures.

b. Credit risk

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

Maximum Group's exposure to credit risks is presented in the table below.

CREDIT RISK EXPOSURE

	as at 31.12.2018	as at 31.12.2017
Receivable and loans	1 412 209 941	1 831 408 822
Cash and cash equivalents *	189 957 881	193 392 519
	1 602 167 821	**2 024 801 341**

* excluding cash

Trade and other receivables

Due to the fact that Group's customers are highly distributed and scattered, there is no concentration of credit risks.

The Group's credit risk regarding receivables varies depending on the particular group of clients cooperating with the Group, as follows:

a) sales realized in cash constitute over 90% of total sales realized by wholesale discounts and therefore there is no credit risk;

b) sales service to franchise and independent clients is mostly on credit and has therefore a greater amount of overdue receivables. However, counterparties credit risk is moderate;

c) sales of marketing services to suppliers (promotions, newsletters, advertising brochures) are exposed to minor credit risks due to compensations of receivables related to sales of marketing services with payables to suppliers, related to additional agreements,

d) sales to HoReCa are typically transacted on a credit basis and therefore a higher percentage of overdue receivables occurs in this category; however, the credit risk related to these parties is moderate;

e) credit sales of tobacco products and impulse goods by the subsidiary Eurocash Serwis Sp. z o.o. - a higher percentage of overdue receivables occurs in this category; however, the related credit risk is assessed as moderate;

The Group monitors the amount of overdue receivables on an ongoing basis and in justified cases initiates legal proceedings and raises an allowance for bad debts.

The tables below present the aging structure of trade receivables and bad debts allowances:

AGEING OF TRADE RECEIVABLES AND BAD DEBT ALLOWANCES AS AT 31.12.2018

	Trade receivables gross as at 31.12.2018	Bad debts allowance as at 31.12.2018	Trade receivables gross as at 31.12.2017	Bad debts allowance as at 31.12.2017
current	1 106 691 329		1 302 907 743	-
0-30 days	172 015 409		248 563 984	-
31-90 days	54 611 275		98 375 890	-
91-180 days	13 950 266	3 846 683	25 505 065	-
> 180 days	57 845 201	57 845 201	68 355 582	60 866 973
	1 405 113 481	**61 691 885**	**1 743 708 264**	**60 866 973**

ALLOWANCE FOR BAD DEBTS AS AT 31.12.2018

	for the period from 01.01.2018 to 31.12.2018	for the period from 01.01.2017 to 31.12.2017
Opening balance	60 866 973	60 998 968
Increases*	824 912	-
Decreases*	-	(131 995)
Closing balance	**61 691 885**	**60 866 973**

**net value*

Investments

Cash and cash equivalents are deposited in financial institutions with high credit ratings and the Group does not expect any counterparties to fail to meet their obligations.

Guarantees
The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries and for regular key customers.

c. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

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

The basis for effective liquidity risk management in the Eurocash Group is an internal model of forecasting cash flows. The Group's liquidity management is focused on detailed analysis, planning and acting in the following three areas:
a) investments in fixed assets,
b) working capital,
c) net financial debt.

The Group's sales is realized mainly in cash. Moreover, the Group has a negative balance of overdraft facility (excluding cash pool) up to PLN 700m, which can be used to meet its short-term financial requirements. As at 31 December the limit was reached to the amount of PLN 400 m
Eurocash Serwis Sp.z o.o. has a flexible credit with a limit to the amount of PLN 110 m in the bank Pekao S.A. As at 31.12.2018. the limit was reached to the amount of PLN 87.2 m.
In addition, liabilities from suppliers also include trade payables covered by the contracts (with 8 banks) reverse factoring, which do not generally change the conditions of trade payables.

As at 31 December 2018, there was a surplus of current liabilities of the Group over its current assets in the amount of PLN 1.9 billion which is typical for the industry in which the Eurocash Group provides the activity, in which a significant part of sales is made on cash conditions, stock levels are minimized and suppliers provide deferred payment terms. At the same time, the Group is developing the retail network by involving its own funds and from external financing sources. The financial plans of the Management Board, containing operating and investment cash flow indicate that possessing sufficient sources of financing of the activity and maintaining the liquidity by the Group. Conditions related to credit agreements are being monitored, as at the balance sheet date, 31 December 2018, the terms of loan agreements were not broken. In addition, the Group has not used credit limits. Considering the above, as at the date of approval of these separate financial statements, there are no circumstances indicating a threat of a loss of financial liquidity by the Group.

Eurocash Group optimizes the liquidity positions of subsidiaries and net interest income by using the mechanism of concentration balances (cash pooling) and a system of intercompany loans.

Carrying amounts by agreed due dates are presented in the following tables (excluding any compensation agreements of compensation of receivables and payables):

LIQUIDITY RISK

AS AT 31 DECEMBER 2018	Net book value	< 12 months	1-5 years	> 5 years
Financial lease liabilities	8 469 417	5 142 497	3 326 920	-
Liabilities due to financing of franchisees	23 593 244	23 593 244	-	-
Trade and other payables	3 915 019 336	3 851 079 253	63 940 083	-
Other finance liabilities	3 695 592	3 695 592	-	-
Loans and borrow ings	542 754 634	542 754 634	-	-
	4 493 532 223	**4 426 265 220**	**67 267 003**	**-**

AS AT 31 DECEMBER 2017	Net book value	< 12 months	1-5 years	> 5 years
Finance lease liabilities	10 714 936	5 873 595	4 841 341	-
Liabilities due to financing of franchisees	21 852 020	21 852 020	-	-
Trade and other payables	4 028 713 618	3 970 564 795	58 148 822	-
Other finance liabilities	2 270 095	1 084 201	1 185 894	-
Short-term loans and credits	317 781 175	317 781 175	-	-
The issuance of debt securities	219 533 443	219 533 443	-	-
	4 600 865 286	**4 536 689 229**	**64 176 057**	**-**

d. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group’s income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

Currency risk does not affect significantly business activities of the Group as the majority of the Group’s settlements are made in the local currency. In order to manage the currency risk, regarding significant transactions in foreign currency, the Group buys and sells derivatives. The Group is focused on application of hedge accounting that would minimize the effect of profit and loss variability for the period. In 2018, as well as in 2017, the Group did not have any open positions in currency derivatives

Interest rate risk

The risk of interest rates is related to loans and credits taken out or granted, accordingly.

The following table presents the carrying amount of the Group's financial instruments exposed to interest rate risk, by age category.

INTEREST RATE RISK

31 December 2018

	< 1 year	2-5 years	> 5 years	Total
Finance lease liabilities	5 142 497	3 326 920	-	**8 469 417**
Credits and loans	542 754 634	-	-	**542 754 634**

31 December 2017

	< 1 year	2-5 years	> 5 years	Total
Finance lease liabilities	5 873 595	4 841 341	-	**10 714 936**
Credits and loans	317 781 175	-	-	**317 781 175**

The following table presents the Company's exposure (maximum exposure) to the risk of interest rate changes by presenting variable and fixed rate financial instruments:

VARIABLE AND FIXED INTEREST RATE FINANCIAL INSTRUMENTS

	Present value 31.12.2018	Present value 31.12.2017
Fixed interest rate instruments		
Financial liabilities	8 469 417	10 714 936
Variable interest rate instrument		
Financial assets	1 608 768 793	2 034 009 171
Financial liabilities	4 485 062 806	4 590 150 350

The Group has analyzed the variable-interest instruments' sensitivity to changes of market interest rates. The table below presents the impact of increase and decrease of the interest rate by 100 bp on the net profit/loss and on equity less net profit/loss. This analysis was performed based on the assumption that all other variables, such as currency exchange rates, remain unchanged. The analysis was performed for the current and for the previous year, that is 2017.

SENSITIVITY ANALYSIS OF FINANCIAL INSTRUMENTS

	Income statement		Equity	
	increases 100bp	decreases 100bp	increases 100bp	dereases 100bp
31 December 2018	(28 762 940)	28 762 940	-	-
31 December 2017	(25 561 412)	25 561 412	-	-

e. Capital management

The Group'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 Group monitors changes in the structure of shareholders, the return on capital and the level of dividends to ordinary shareholders.

It is the objective of the Group to achieve such value of return on equity that would satisfy the shareholders and guarantee yearly payment of dividend.

There were no changes in the Group's approach to capital management during the year.

f. Fair values

As at December 31, 2018, fair value of financial instruments was similar to their carrying value. The Group holds interest rate security instruments (IRS) carried at fair value. For these IRS, fair value was recognized as level 2 in the hierarchy - fair value is determined on the basis of values observed on the market yet different than direct market quotes (e.g. through direct or indirect reference to other instruments existing on the market). With respect to the applied hedge accounting, the effect of valuation is presented in other comprehensive incomes.
According to the Group, the fair value of cash, short-term deposits, trade receivables, trade payables, bank loans, loans and financial lease liabilities and other financial assets and liabilities does not deviate from the carrying amounts.

NOTE 36.

OTHER SUBSEQUENT EVENTS

There were no other significant events during the period covered by the financial statements, influencing the activity if the Group.

NOTE 37.

IMPORTANT EVENTS AFTER THE PERIOD COVERED BY THE FINANCIAL STATEMENTS

1. **Eurocash Group completes Partner acquisition.**

On 4 March 2019 Eurocash Group has finalised a transaction to acquire a 100% stake in Partner, which operates 25 Lewiatan franchise stores.
The stake in Partner was sold by Asteria Holding, which counts Wojciech Kruszewski, the long-term CEO of Lewiatan Holding, as shareholder.

SIGNATURES OF THE MANAGEMENT BOARD MEMBERS

Position	Name and surname	Date	Signature
President	Luis Amaral	15th March 2019	
Management Board Member Chief Executive Officer	Rui Amaral	15th March 2019	
Management Board Member	Arnaldo Guerreiro	15th March 2019	
Management Board Member	Pedro Martinho	15th March 2019	
Management Board Member Human Resources Director	Katarzyna Kopaczewska	15th March 2019	
Management Board Member Financial Director	Jacek Owczarek	15th March 2019	
Management Board Member	Przemysław Ciaś	15th March 2019	

EUROCASH GROUP

Wiśniowa 11st., 62-052 Komorniki
tel. + 48 61 658 33 00, fax. + 48 61 658 33 04
e-mail: eurocash@eurocash.pl
https://grupaeurocash.pl/en/about-eurocash/responsible-business