EUROCASH GROUP S.A.

Consolidated annual report for the year 2017

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PART A

REPORT OF THE MANAGEMENT BOARD

FOR THE PERIOD FROM 1 JANUARY 2017 TO 31 DECEMBER 2017

KOMORNIKI, MARCH 22. 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.

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LETTER FROM THE PRESIDENT

DEAR SHAREHOLDERS, PARTNERS, EMPLOYEES, CUSTOMERS,

Over 20 years ago, we undertook a challenge and at the same time a commitment to support independent entrepreneurs running grocery stores in Poland. At that time, many experts predicted that these stores would be completely ousted from the market by discounters and hypermarkets. However, we have consistently invested to our clients benefit by building logistic, marketing and negotiation scale. We increased our level of investment even in the difficult period of price deflation combined with operating cost increases. Today, the position of small-format stores is strong. Despite the fact that the number of stores on the market is still declining, those of our clients who are professionalizing and adapting to new trends are increasing sales, often even faster than their biggest competitors - discounters.

As we look to the future, we are focusing on finding a number of new solutions in the belief that in a few years time the position of our customers in Poland will be stronger still. However, as we compete while also innovating to realize our vision, we face difficulties along the way, often caused by own mistakes. I consider that the year of 2017 was particularly affected by such difficulties and mistakes.

Our net result speaks for itself. The final result was influenced by the write-off caused by our allowing criminals to rob our Company. As soon as the first signals appeared, we conducted an internal investigation with the help of the best and most reputable advisors. We passed the results of the investigation to appropriate state institutions, at the same time covering the cost of potential liabilities that may have been evaded by entities purchasing goods from us allegedly for export. It could take many years to reclaim this amount, and it may even be impossible. In the same year, we lost concentration, especially at year-end , when we failed to achieve the expected profitability. This was influenced primarily by lower than expected margin but also by rising costs.

This year is behind us, but I would not say that it was altogether a lost year - we have developed lot of solutions which are destined to enhance the competitiveness of our clients.

Central logistics, serving Delikatesy Centrum and Eurocash Distribution, is the strength of our clients. The newly built platform for the distribution of fresh products with the highest quality is appreciated by both consumers and our franchisees. Our modern Customer Relationship Management System, based on artificial intelligence, is giving to our franchisees access to solutions that until now have never been available to independent entrepreneurs in Poland. "eHurt" is today one of the largest B2B online platforms in the country , the like of which is not to be found elsewhere in the world, and it will soon support store owners with business management solutions. Eurocash Academy, the only business school of its kind in the country, gives access to knowledge and is eagerly used by stores owners and their employees. Faktoria Win is a concept that has rebuilt sales of the wine category in 4,500 independent stores in Poland. Frisco.pl is an online home delivery platform that will develop a fully automated logistics center in coming years and whose solutions will also be available to customers with stores in major cities in Poland. Duży Ben, our liquor store concept, is a response to our clients expectations who require specialization and proven alcohol sales standards. Kontigo and abc on wheels are projects that aim to complete the portfolio of stores that independent entrepreneurs can choose from.

In developing these projects, we need to be sure that their costs do not negatively affect the short-term profitability of our company. In this context, we have decided to split the Eurocash Group into two independently managed businesses: Wholesale and Retail. In the coming years, wholesale will focus on seeking synergies and using the best solutions developed in each Business Unit. Cost synergies will be realized firstly, on so-called non-trade purchases, which so far were executed separately by each format. Also, further logistic integration will be pursued, where both Alcohol and Impulse Product distribution will be integrated within the infrastructure serving Eurocash Dystrybution and Delikatesy Centrum today.

Going into the Retail business we are realizing a strategy blueprint defined 3 years ago. Retail will be a business bringing growth that is necessary for the Eurocash Group, but first and foremost for thousands of independent entrepreneurs cooperating with the Group. Within 5 years we will open 900 stores of so-called proximity supermarkets. We are going to create the first nationwide chain of such stores, which are to be recognizable and accessible to consumers also in the smallest towns in the country . Consumers will no longer have to go shopping for a dozen or so minutes by car to a larger city. The entrepreneur, on the other hand, will be able to join this idea as a franchisee, which will ensure his or her competitiveness against discounters. Meanwhile, our chain of own stores will allow us to accelerate work on innovations and bring a return much faster than before. Ultimately, all solutions will be delivered much faster to all franchisees, partners and customers of the Eurocash Group.

Finally, Eurocash Group will also be an excellent alternative for our suppliers, who have often mistakenly based their strategy on the chains of discounters or hypermarkets. On the one hand, our suppliers will be able to take advantage of access to the tens of thousands of professionally managed stores of our clients; on the other, they will have access to franchise chains and our own proximity supermarkets with a recognizable brand that is appreciated by the consumer.

This is a long-term plan, and in my opinion we are on the right track to achieve it. Just like 20 years ago, being Polish company listed on Warsaw Stock Exchange and operating only in Poland, we are closer to our clients with better understanding of needs, we remain committed to investing in their competitiveness today.

Our values are Responsibility, Accountability, Teamwork, Transparency, Profit Sharing, Client service attitude, Work enjoyment and Entrepreneurial spirit. Over the years we have nurtured precisely these values. However, we must remember them also today. I require this of myself and of my colleagues in the Eurocash Group. As surely as we require this from each other, our clients or shareholders may require it from us too. I truly believe that we are able to meet all of these requirements.

Sincerely,

Luis Amaral

President of the Eurocash Group

1. SUMMARY OF EUROCASH GROUP OPERATIONS IN 2017

PLN m	2017	2016	Change %
Sales revenues (traded goods, materials)	23 271,08	21 219,90	9,67%
Gross profit (loss) on sales	2 440,98	2 112,12	15,57%
Gross profitability on sales (%)	10,49%	9,95%	0,54 p.p.
EBITDA normalized*	360,71	440,49	-18,11%
(Normalized EBITDA margin %)	1,55%	2,08%	-0,53 p.p.
Total impact of potential VAT liabilities on net profit	114,40	-	-
EBITDA reported	246,31	440,49	-44,08%
(Reported EBITDA margin %)	1,06%	2,08%	-1,02 p.p.
EBIT normalized*	177,40	274,28	-35,32%
EBIT reported	62,99	274,28	-77,03%
(Normalized EBIT margin %)	0,76%	1,29%	-0,53 p.p.
(Reported EBIT margin %)	0,27%	1,29%	-1,02 p.p.
Gross profit normalized*	134,71	235,92	-42,90%
Gross profit reported	20,31	235,92	-91%
Net profit normalized*	84,84	190,02	-55,35%
Net profit reported	(29,56)	190,02	-116%

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

*excluding impact of the paid costs of potential VAT liabilities on net profit

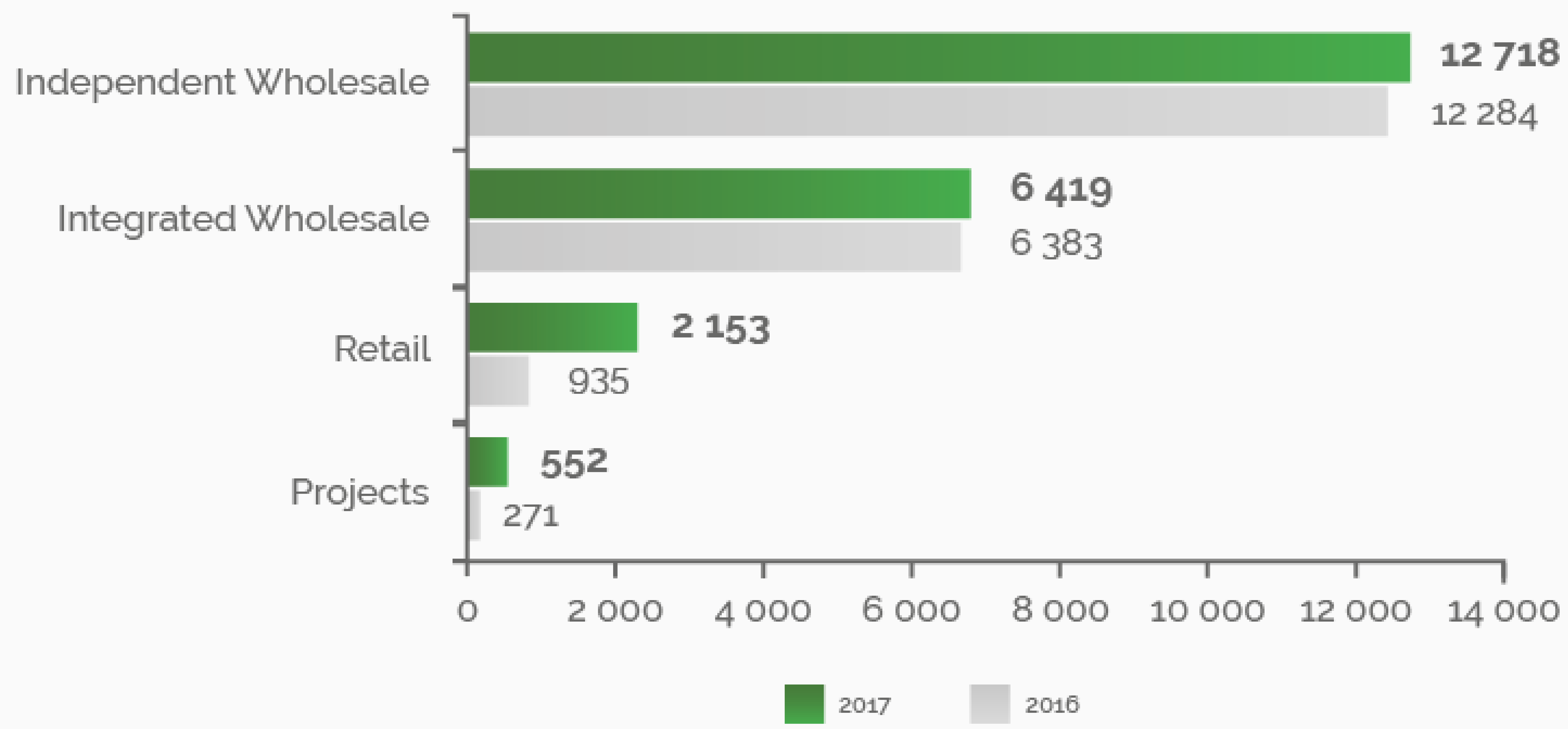
Consolidated sales of Eurocash Group in 2017 amounted to PLN 23 271.08 m and increased by 9.67% YoY. Sales growth was driven mainly by consolidation of acquired companies (EKO Holding S.A., FHC-2 Sp. z o.o., and PDA sp. z o.o.).

EBITDA normalized in 2017 amounted to PLN 360.71 m compared with PLN 440.49 m previous year (a decrease by 18.11%). Decrease of EBITDA was attributable mainly to lower profitability in Independent Wholesale segment, integration of acquired companies, one-off costs, as well as increase of spending for strategic projects to strengthen position of independent retailers such as: extension of the offer for Delikatesy Centrum stores by fresh products and development of innovative retail formats under brands Kontigo, 1 minute, abc on wheels, Duży Ben.

The net profit normalized in 2017 reached PLN 84.84 m, which means 55.35% decrease YoY. Net profit was impacted by higher interest costs due to increased leverage driven by M&A and potential VAT liability payment.

Number of Eurocash Cash&Carry stores at the end of 2017 amounted to 180 outlets. Number of abc loyalty scheme stores amounted to 8 531. Number of franchise stores in Delikatesy Centrum chain increased in 2017 and reached the level of 1171 stores (including 55 rebranded EKO stores). Number of franchise and partnership stores integrated by Eurocash Group subsidiaries (Groszek, Euro Sklep, Lewiatan, PSD) amounted to 4 905 at the end of 2017.

Chart 1. *Eurocash Group: Sales growth in 2017 according to the segments (PLN m)*



Source: Own study

In 2017 external sales of goods in Independent Wholesale segment amounted to PLN 12 717.75 m comparing with PLN 12 283.82 m in previous year which means growth by 3.53%. External wholesale sales of goods realized by Integrated Wholesale segment in 2017 amounted to PLN 6 419.34 m in comparision to PLN 6 383.08 m last year. Total results of the segment was impacted by consolidation of acquired retail companies (FHC-2, Madas) and its sales transfer to Retail segment. Retail sales of goods realized by Retail segment in 2017 amounted to PLN 2 153.19 m compared to PLN 934.74 m in previous year. In 2017 sales of goods realized by

Projects segment amounted to PLN 552.04 m in comparison to PLN 271.35 m last year. 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 2017 amounted to PLN 488.64 m comparing to PLN 234.36 m in 2016.

In 2018 the Eurocash Group will present results split on two segments: Wholesale and Retail.

In the wholesale segment, revenues from the sale of distribution formats will consist of:

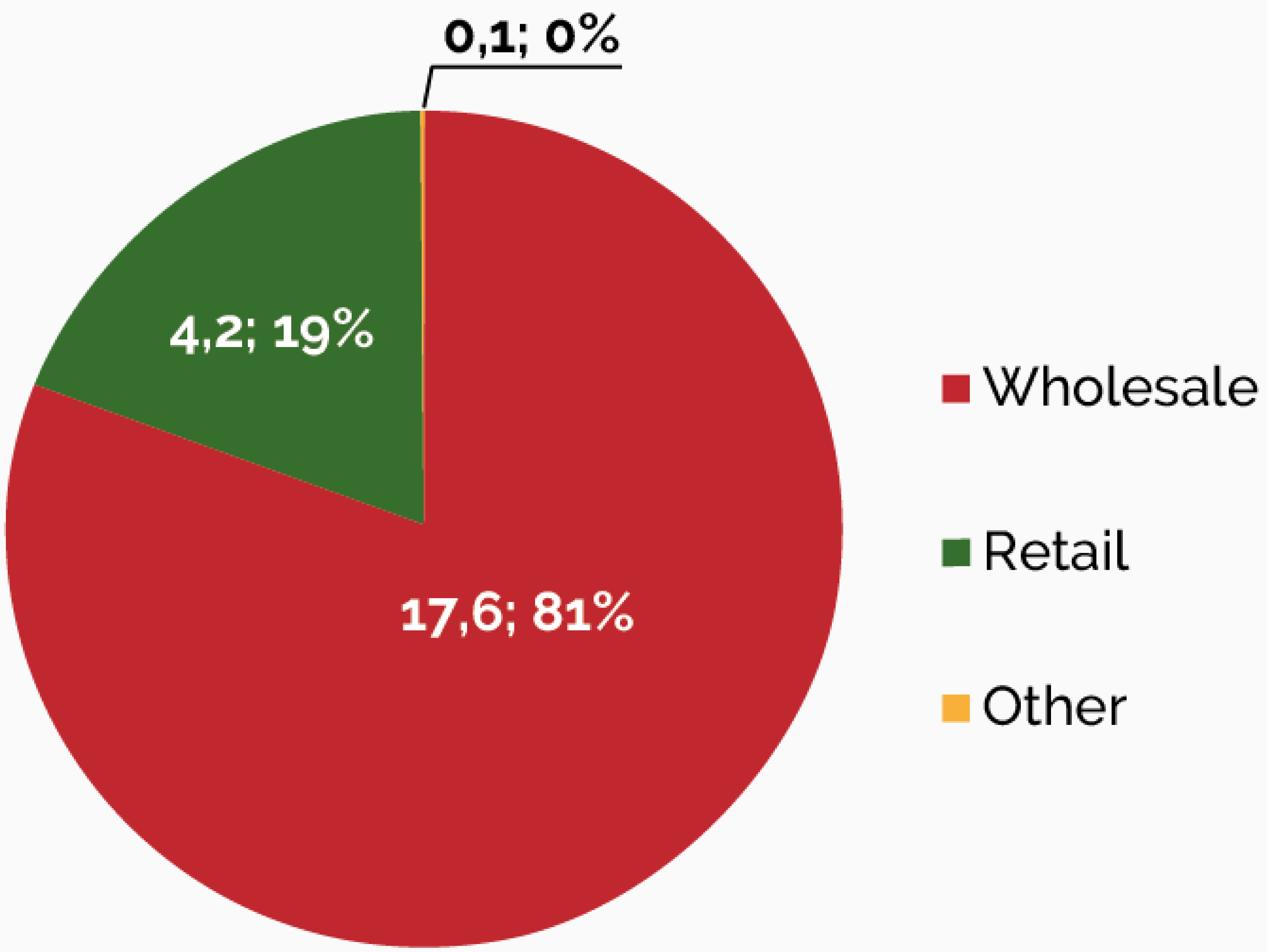
- Eurocash Distribution,
- Tobacco Distribution,
- Alcohol Distribution,
- Eurocash Cash & Carry,
- Eurocash Food Service,
- Pay Up.

In the retail segment, sale will be presented of:

- Delikatesy Centrum - wholesale to franchise stores including the sale of the Fresh Project to the Delikatesy Centrum chain,
- Delikatesy own Center - retail sales of Rogala, FHC-2, Madas and EKO Holding,
- Inmedio - retail sales of Inmedio newsagents.

Below we present the distribution of sales revenues for 2017, split on two new business segments.

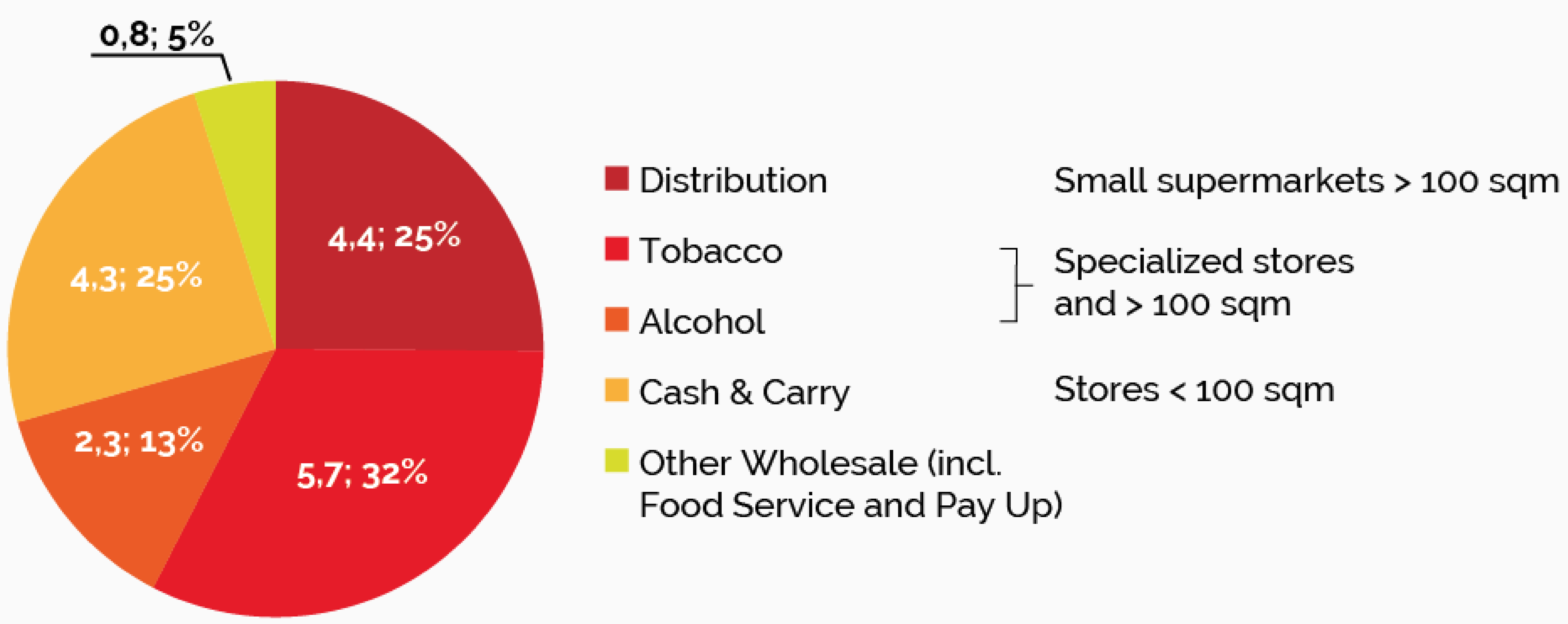
Chart 2. *Eurocash Group: Presentation of the Group's segments by retail and wholesale segments (PLN bn)*



Source: Own study

The retail segment accounted for nearly 19% in the Eurocash Group, while the wholesale segment was responsible for 81% of Eurocash Group's sales revenues.

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



Source: Own study

Największy udział w sprzedaży segmentu hurtowego stanowią przychody ze sprzedaży generowane przez Eurocash Serwis - 32%, następnie Eurocash Dystrybucja i Eurocash Cash&Carry – po 25% sprzedaży segmentu hurtowego. Sprzedaż segmentu Eurocash Alkohole stanowi ok. 13% sprzedaży.

Chart 4. *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. 49% 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 20% of sales. The retail segment also includes the sale of Inmedio newsagents, whose share in the segment's revenue is 14%.

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 2: *Macroeconomic situation in Poland*

	2017	2016	2015
GDP change* (in %)	4,6	2,9	3,9
Consumer price index change (in %)	+2,0	-0,6	-0,9
Registered unemployment** (in %)	6,6	8,2	9,7

Source: Central Statistical Office
** Preliminary data*
*** As at year end*

EUROCASH GRUPA

Poland's economic growth, as measured by GDP growth, according to preliminary estimates amounted in 2017 to 4.6% compared to 2.9% in 2016. In 2017 the fastest growing sector of the economy was construction business - the value added in this sector increased by 11.5% year on year. Similar growth dynamic was reached by transportation and storage – an increase by 10.9% YoY. Trade and repair of motor vehicles increased by 6.1%. Total consumption in 2017 increased by 4.2% and in consumption in the household sector by 4.8% YoY.

Prices of consumer goods and services in 2017 increased by 2.0% comparing with previous year. Prices of food and non-alcoholic beverages in 2017 increased by 4.2% and prices of alcoholic beverages and tobacco products increased by 1.0% YoY.

At the end of December 2017, the registered unemployment rate in the country improved comparing to the previous year and amounted to 6.6%.

Chart on the next page present the consumer prices index evolution on a quarterly basis.

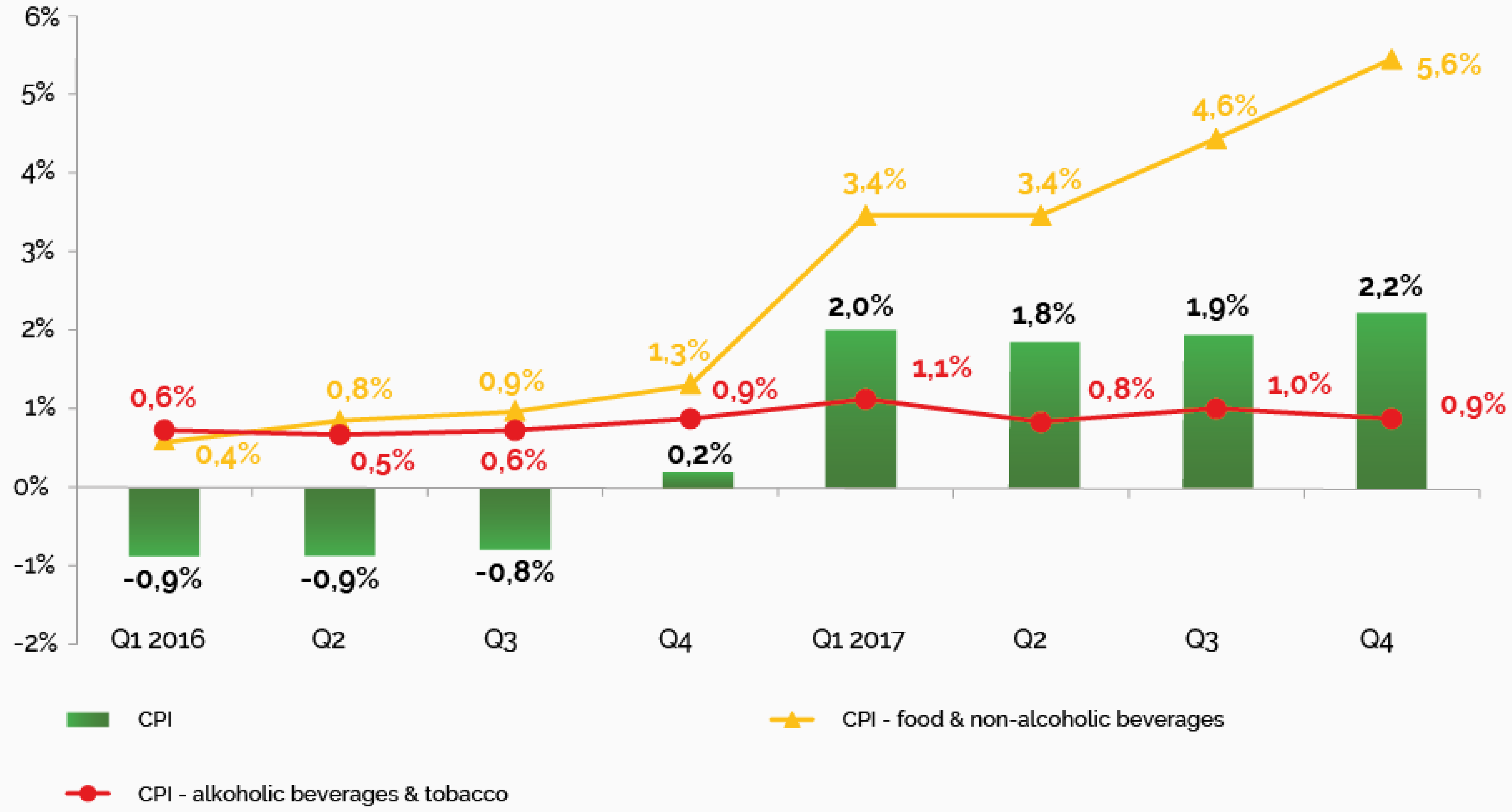
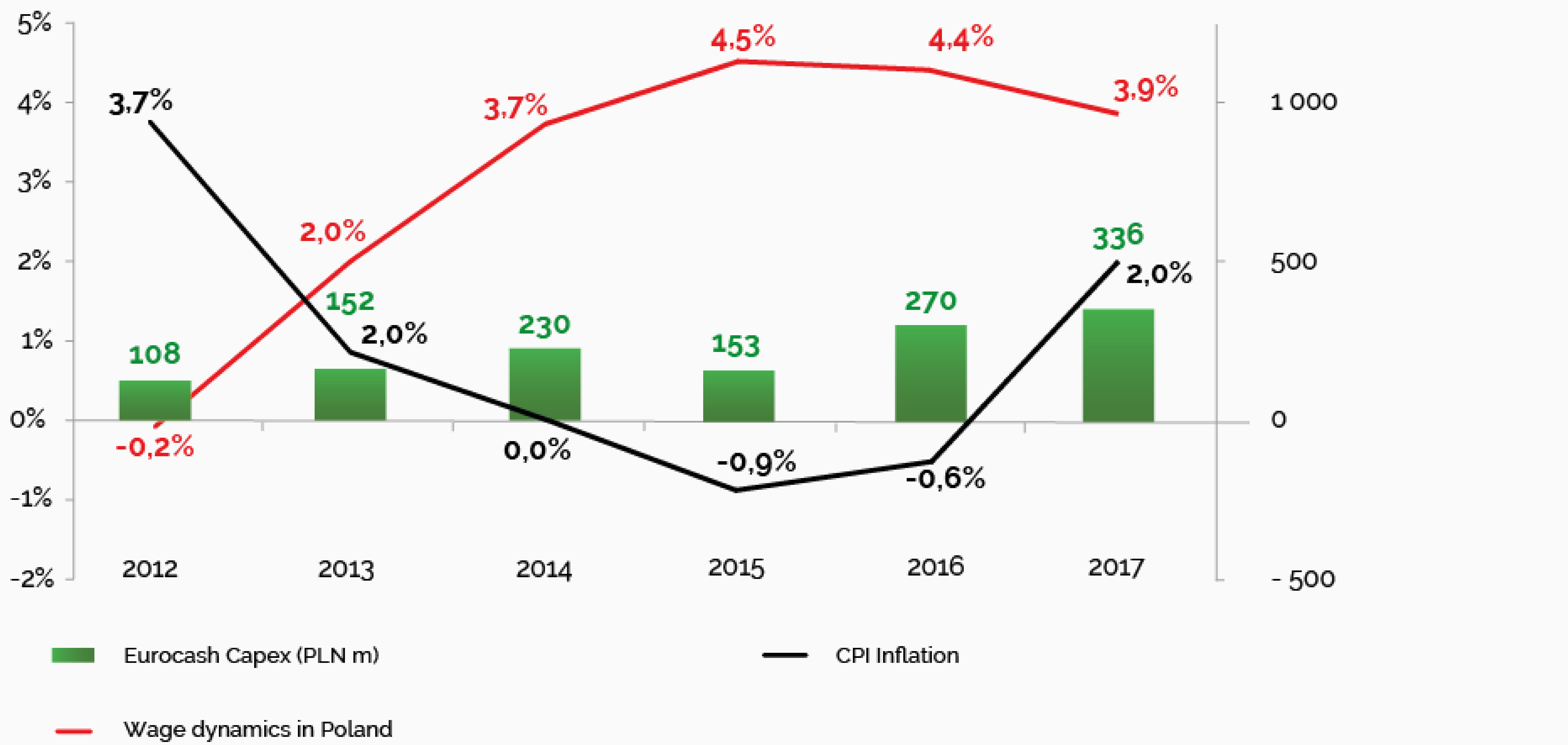


Chart 5. *Dynamics of price indices of consumer goods and services (CPI)*

Source: Own study based on data from the Central Statistical Office of Poland

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. For 4 years, the dynamics of gross wages and salaries in private enterprises ranges from 3.7% to 4.5%, and in 2017 it amounted to 3.9% (data from the Central Statistical Office). In the same period, deflation of consumer goods and services was recorded in Poland, which in 2017 returned to positive values and amounted to 2.0%. Despite the rising costs of operating and low inflation (or deflation), the Eurocash Group had made significant investments, which in 2017 amounted to PLN 336 million. The evolution of Eurocash Group's capital expenditures as compared to inflation indicators and the growth rate of gross payroll costs is presented in the chart below.

Chart 6. *Eurocash Group's investments compared to the growth of prices of consumer goods and services and the dynamics of wage costs*



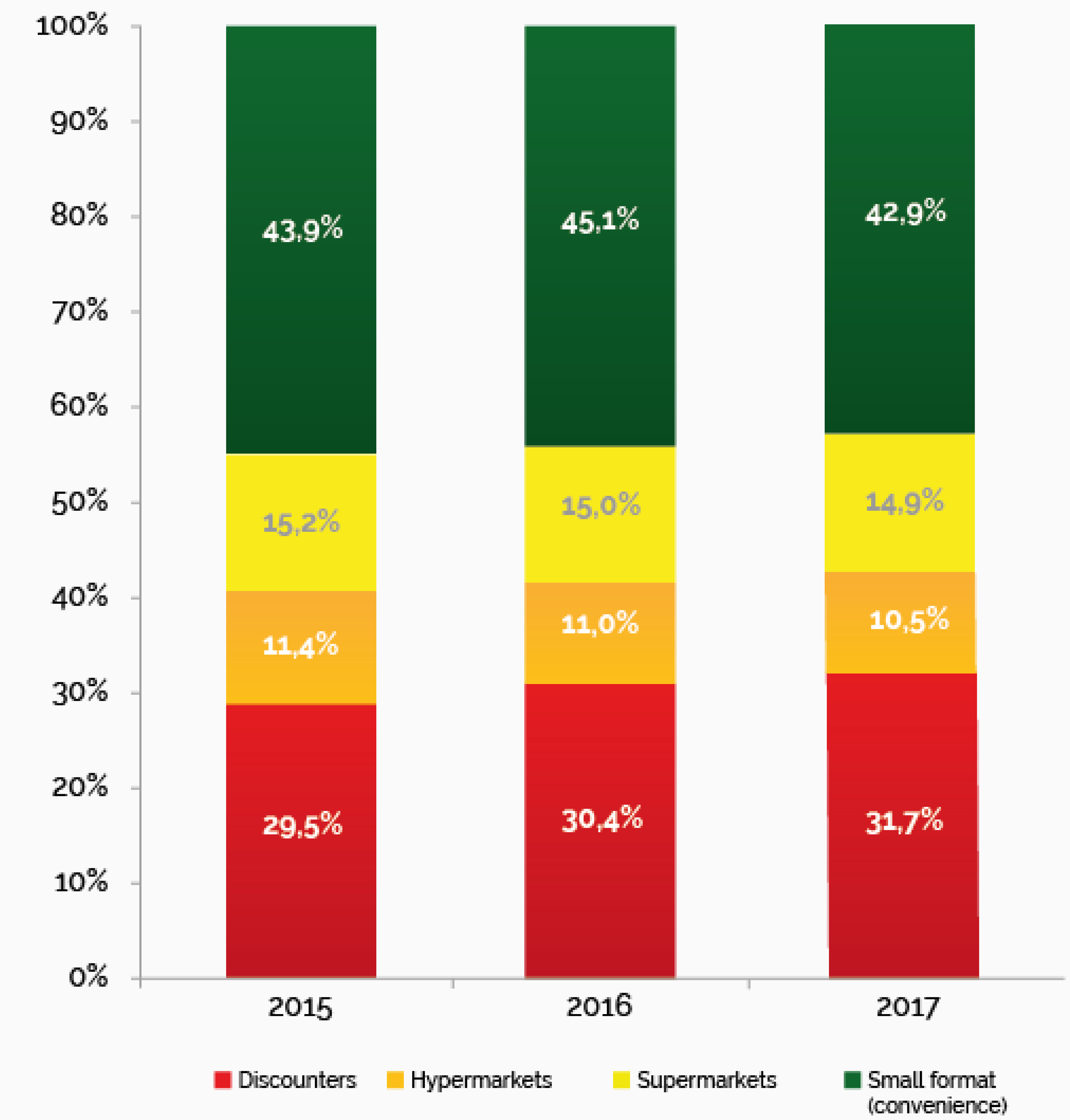
Source: Own study based on data from the Central Statistical Office of Poland

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 2017 in Poland increase by 4.3% in comparison with the 2016.

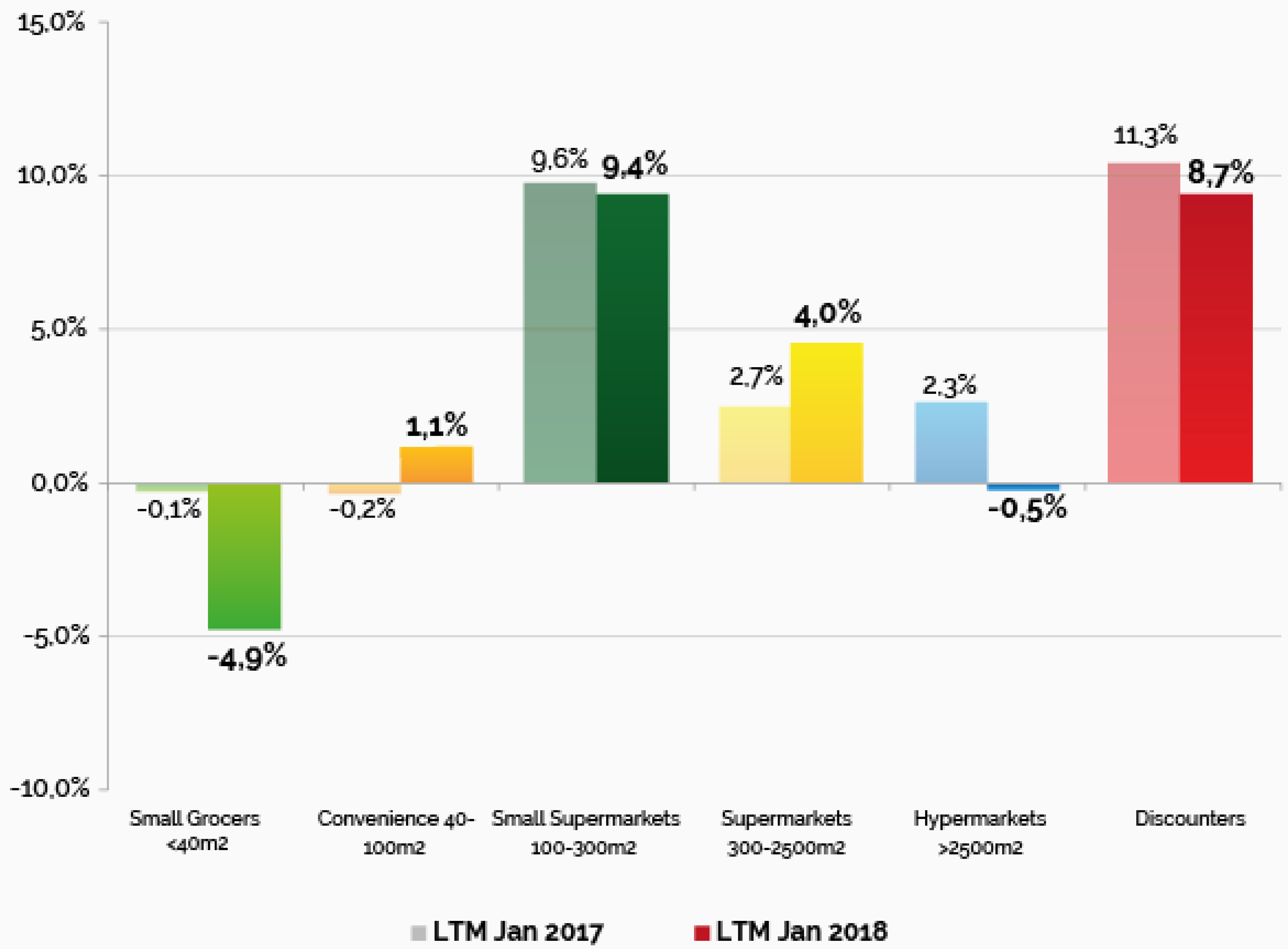
Chart 7. *Structure of the FMCG market in Poland**



Source: Own study based on data from the Nielsen
**Whole Poland, LTM Jan 2017 = from January 2017 to January 2018*

The total share of the value of large format stores in the last year has not changed significantly and in 2017 amounted to approx. 57%. The share of small-format stores in 2017 amounted to almost 43% and is at a similar level to 2016. At the same time, the number of small-format stores decreased by 3.4%, reaching the level of approx. 94.6 thousand stores at the end of 2017 (large, medium and small grocery stores, sweet and alcohol, kiosks and petrol stations). The fastest-falling group of small-format stores are small grocery stores with an area of up to 40 sqm, which translates into a 4.9% drop in sales compared to last year. The sale of these stores is compensated by increases in the sales of small supermarkets with an area of 100 to 300 sqm, which amounted to 9.4% increase in sales, which is the largest growth recorded on the market. So-called convenience with an area of 40-100 sqm recorded an increase of 1.1% YoY. The next growing segment on the market were discounters, which recorded an increase in sales by 8.7%. Positive sales growth was also recorded in large supermarkets (+ 4.0% YoY), hypermarkets recorded a drop in sales, which in 2017 was at -0.5% YoY.

Chart 8. *Last Twelve Month (LTM*) sales dynamics of FMCG** products*



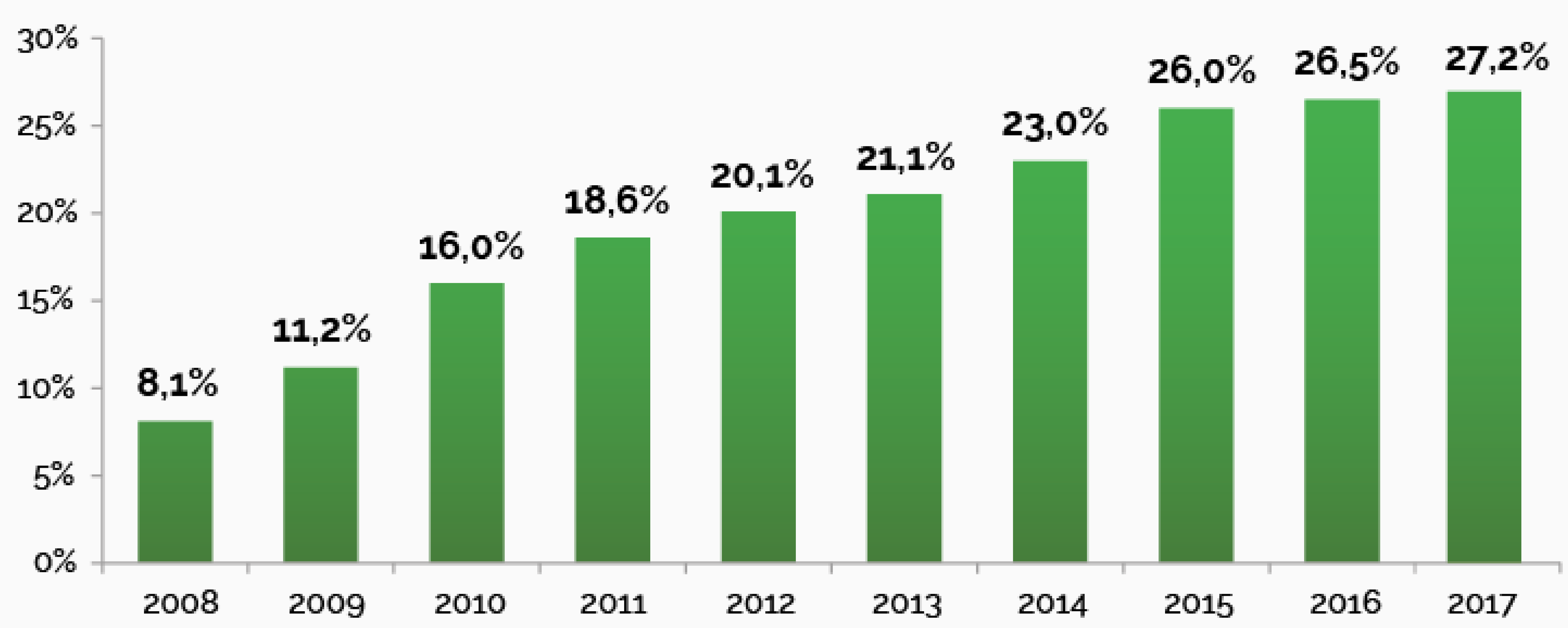
Source: Own study based on data from the Nielsen
** LTM Jan 2017 = from January 2017 to January 2018*
*** Small supermarkets, Convenience, Small grocers – food sales dynamics*

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 2017, Eurocash Group represented a 27.2% share in the wholesale market of FMCG products, which was a 0.7 p.p. increase on the previous year. Below is presented the evolution of Eurocash Group market share during last years.

Chart 9. *Market share of Eurocash Group during 2008-2017 2008 - 2017*



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 57% of major retail channels whereas small format stores - approximately 43%. 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 released by Nielsen, the total number of retail outlets associated in networks was approximately 34.2 thousands (+6.7% YoY) in 2017.

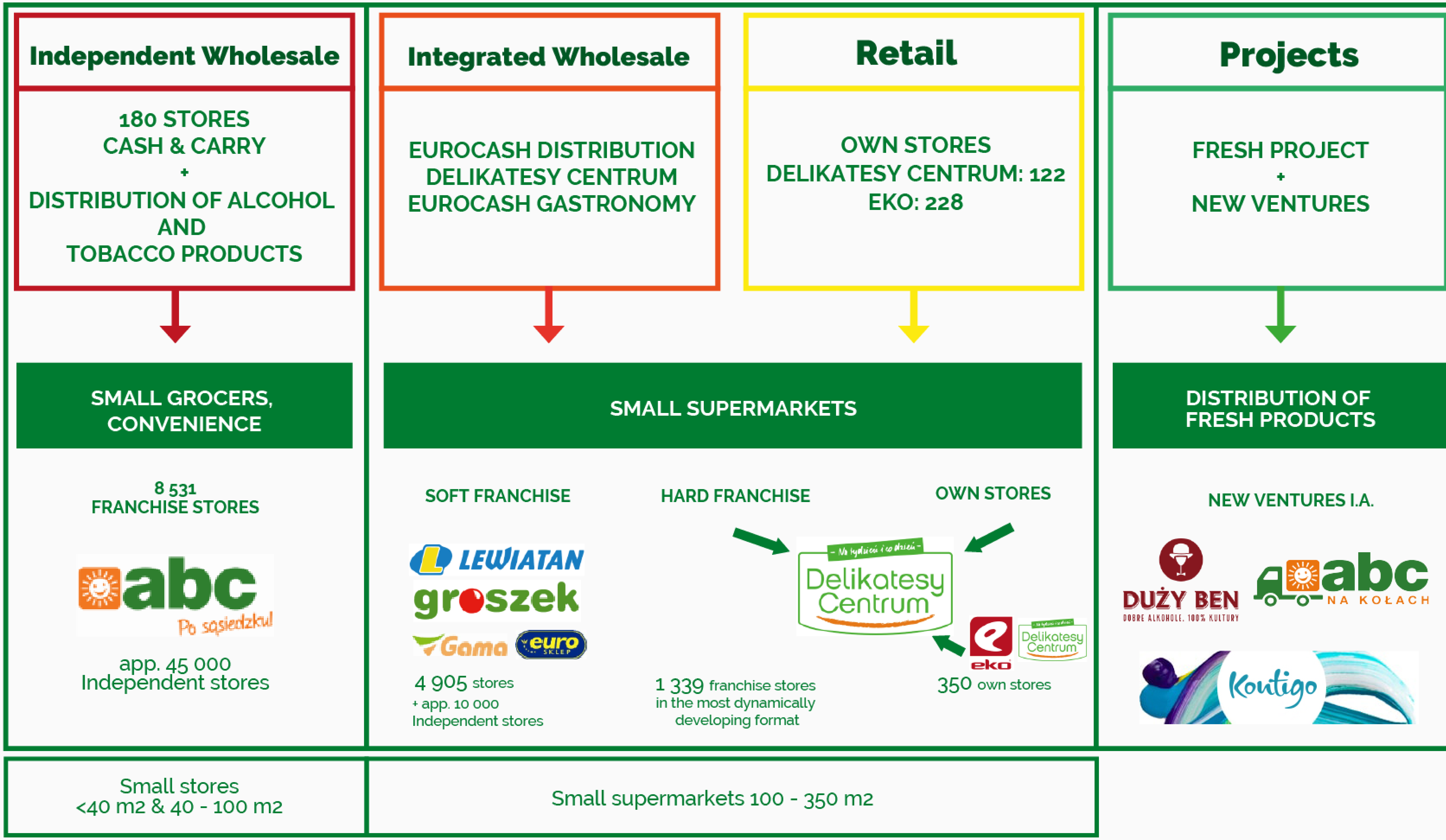
After rapid consolidation of the FMCG wholesale distribution market has observed in years 1991-2000, the last decade saw a reduction in the number of wholesale businesses involved in the sales of FMCG products down to approximately 3 000 - 4 000 entities, which number remains stable.

2.2 EUROCASH GROUP: BUSINESS FORMATS

The Eurocash Group is one of the largest groups in Poland in terms of sales values and the number of outlets involved in the distribution of food products, household chemicals, alcohol, and tobacco products (fast moving consumer goods – FMCG.)

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 10. *Eurocash Group: Focused on small format stores*



Source: Own study

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

Independent Wholesale - those distribution formats whose clients do not have permanent contracts with the Eurocash Group

- **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,
- Other - sales revenues of PayUp Polska S.A.

Integrated Wholesale - those distribution formats whose clients have long-term agreements with Eurocash Group, e.g. franchise systems or clients from the HoReCa segment

- **Delikatesy Centrum** – a franchise system for retail stores operating under the brand "Delikatesy Centrum",
- **Eurocash Food Service** - wholesale and retail distribution of alcoholic beverages throughout Poland,
- **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.), and
  - 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).

Retail - retail sales of Eurocash Group companies

- **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.,
- **Inmedio** – press retail kiosks under Inmedio brand.

Projects - new projects running by Eurocash S.A. and its subsidiaries: 1minute, Kontigo, abc na kołach, Duży Ben, Sushi To Go, 4Vapers and fresh product distribution to Delikatesy Centrum stores realized by Eurocash Detal Sp. z o.o.

Others

Sales revenues and costs of among others central departments impact for the Group, not assigned to any segment.

2.3 NUMBER OF OUTLETS

As at 31 December 2017, the wholesale network of Eurocash Group comprised 180 Cash&Carry warehouses. The Delikatesy Centrum network comprised 1171 supermarkets, while the 'abc' network comprised 8 531 local grocery stores and number of stores associated in networks managed by Eurocash Dystribution was 4 905.

Information on the number of Cash & Carry Warehouses, Delikatesy Centrum stores, 'abc' store network and stores associated in Eurocash Distribution is presented in the table below as at specified dates.

Table 3: *Number of Cash & Carry Warehouses, Delikatesy Centrum and franchise stores*

	As at 31 December				Change 2017/2016	Change 2016/2015	Change 2015/2014
	2017	2016	2015	2014			
Cash & Carry Warehouses	180	190	187	168	-10	3	19
Delikatesy Centrum	1 171	1 086	1 076	1 003	85	10	73
„abc" store network	8 531	8 605	7 658	6 997	-74	947	661
Franchise and partner stores of Eurocash Distribution	4 905	4 750	4 554	4 362	155	196	192

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 2017, 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 2017. The share of other non-food products (including cosmetics, household chemicals, OTC drugs, and others) accounted for 2.6% in 2017.

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 43.72% as at 31.12.2017. Luis Amaral serves as President of the Management Board.

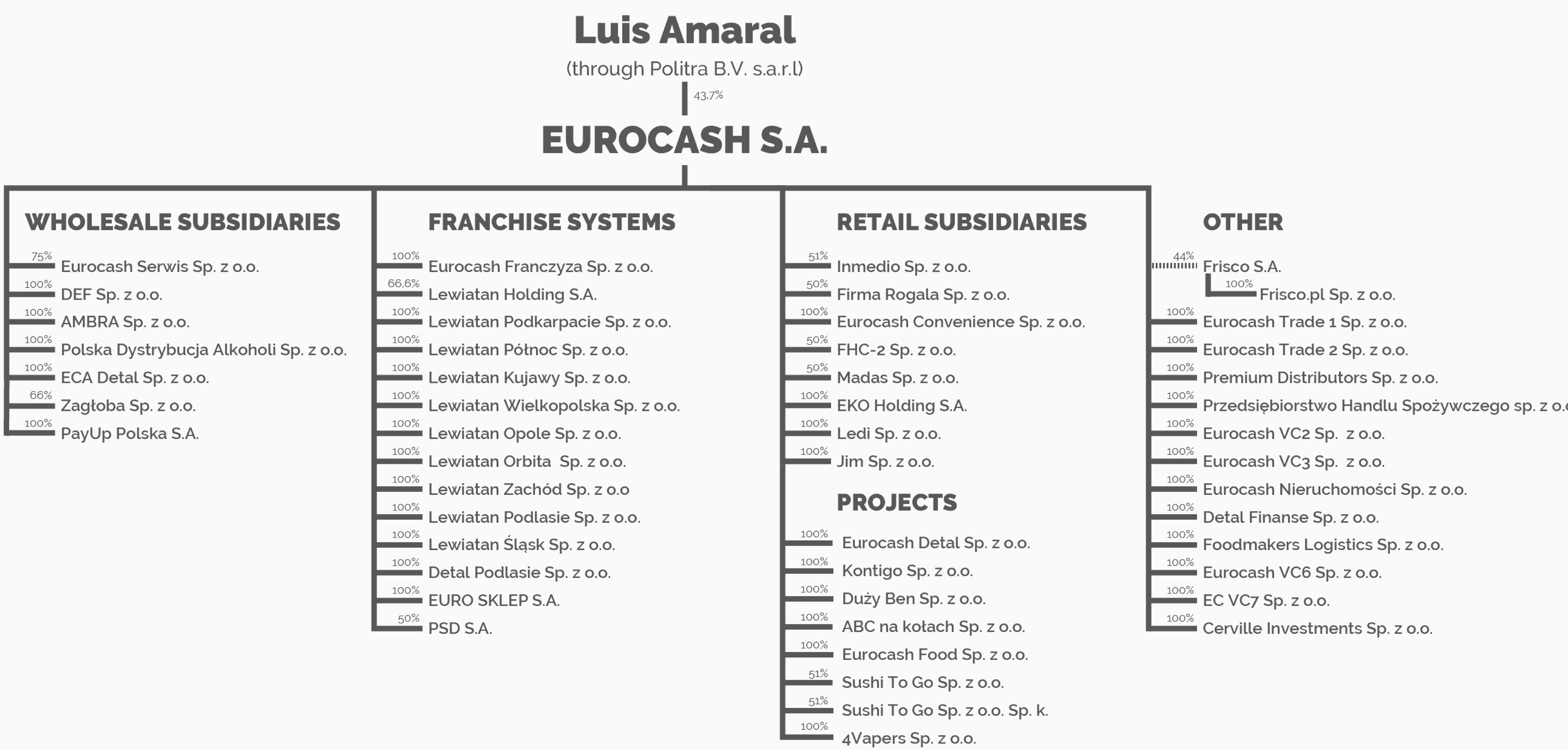
On 22 November 2017, it was notified by Azvalor Asset Management S.G.I.I.C. S.A. together with the direct and indirect subsidiaries, that Azvalor became the holder of shares to which is attached more than 5% of the total number of votes at a General Meeting of EUROCASH S.A. As at 22 November 2017, Azvalor held a total of 7,498,451 shares constituting 5.39% of the share capital of EUROCASH S.A. These shares entitled to 7,498,451 votes constituting 5.39% 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. In recent years Eurocash S.A. took over a number of its subsidiaries, which allowed to simplification of the group structure.

The structure of the Eurocash Group and its affiliated companies is presented on the next page chart.

__Chart 11.__ The structure of the Eurocash Group and its affiliated companies as at December 31 2017:



3.1 EUROCASH GROUP DEVELOPMENT STRATEGY

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 strategy of the Group is focused on and follows the customer who is the addressee of the Group's offer to enter into a range of cooperation options through specific distribution channel formats:

- for small and medium retail stores looking to be supplied with FMCG products whereby an appropriate level of profitability in the adjacency of their business location is ensured without the need for product deliveries – Cash & Carry warehouses and the loyalty program of stores which comprise the 'abc' network;

- for small and medium retail stores looking for FMCG product supplies and support in running retail operations whereby an appropriate level of profitability is ensured – Eurocash Distribution and partner programs under brands such as Lewiatan, Euro-Sklep, Groszek, Gama (affiliate of PSD);

- for retail stores looking for the comprehensive delivery of products - the Delikatesy Centrum franchise network;

- for customers looking for specialized deliveries of specific product categories, e.g.:

  - tobacco products and fast moving consumer goods (retail stores, kiosks, etc.) – distribution through Eurocash Serwis (Tobacco & Impulse);

  - alcoholic beverages – distribution of alcoholic beverages through Eurocash Alcohols;

  - restaurant chains, hotel chains, and petrol station chains looking for the comprehensive delivery of specific products as well as high service quality – distribution under Eurocash Food Service and Eurocash Distribution.

The expansion of the Group's business operations took place in response to the needs of customers who operated in the traditional retail market in order to reach a new customer group or to expand cooperation with current customers. The expansion of the Group's business was accompanied by growing the customer base as well as adding new forms of cooperation to the offer, which took place through takeovers of entities which operated in distribution formats where the Group had not been present or had had a limited business presence.

Strategic goals of the Eurocash Group are as follows:

- satisfy the needs of the Group's customers across key product groups through a range 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 scale economies available in wholesale business operations run by the large format business players,

- further integrate operating systems and regularly optimize costs.

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, the launch of 900 new stores within 5 years, 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.

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., 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., 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

New business formats

Development of new formats for wholesale distribution or new franchise formats for retail stores in order to offer a complete range to the customers of the Eurocash Group and to achieve economies of scale.

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. On the other hand 1minute project is going to be suspended due to lack of dedicated offer and supply chain on the market.

The company affected by external entities which participated in mechanism of vat fraud

In the period from March to August 2017 an extensive and detailed audit of VAT settlements by Eurocash S.A was carried out. The audit covered settlements made in the years 2013 – 2017. It showed that Eurocash S.A. was used in a mechanism of VAT fraud by groups of outside entities in transactions concerning intra-Community delivery of goods. The audit consisted, inter alia, in a review of documentation, including e-mail correspondence, as well as verification of business partners of Eurocash S.A. who participated in the above-mentioned transactions.

The finding of the audit showed that Eurocash S.A. may be obligated to settle a VAT liability in favor of the State Treasury. In accordance with the estimate of the Management Board, the amount of the potential VAT liability may be 121 450 511 PLN. This amount was corrected downwards by the surplus of CIT which arose for the Company in connection with the disclosure of revenue from a sale in the part which corresponds to 23% VAT, and, thus, does not constitute an actual gain (revenue) of the Company. As a result, the Company made a apayment to bank account of the First Wielkopolski Tax Office in Poznań the amount of 95 746 902 PLN in respect of security of payment of the possible VAT liability.

The Management Board believes that the final amount of the VAT liability may differ from the amount paid by the Company in respect of security of payment of the possible VAT liability, once the tax authority has carried out a detailed analysis of the documentation gathered by the Company, as well as of the procedures used by Company and the explanations of the Company. The Company believes that it acted in good faith when carrying out the above-mentioned transactions, and that it regularly tightened up procedures aimed at countering such irregularities. Thus, the Company is proving before the Tax Office that, in the course of ongoing tax audit, it has been harmed by fraud, made by third parties without the Company's knowledge. Thus, the final amount of the VAT liability may be lower than the amount referred to above, while the Company may be due a refund of some of the funds paid.

The Company Management Board emphasizes that payment of the liability will not have any impact on the Company's dividend policy, carried out also in previous years. Negative impact on Net Profit for 2017 amounts to 114 400 861,47 PLN (0.82 PLN per share). Consolidated Net Debt of Eurocash will be negatively affected by 95 746 902 PLN (0.69 PLN per share). The effect of the created reserve was reflected in the financial result of the Company and of the Group in the mid-year financial statements.

Eurocash Group continues to audit the VAT settlements by companies of the Eurocash Group as there exists a suspicion that potential irregularities could appear also in other companies of the Group. 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 January 30 2018, the Prosecutor of the Regional Prosecutor's Office in Poznań initiated the investigation of the notification of August 24 2017.

Acquisition of 100% of shares in EKO Holding S.A

On 4th January 2017 Eurocash acquired 100% of shares in EKO Holding S.A. with its registered office in Nowa Wieś Wrocławska („EKO"). Thereby, Eurocash acquired a network of 248 grocery stores of EKO (operating mostly in south-western Poland), which will allow further development of the Eurocash Group and better use of its capability. The total sales of the company in 2017 amounted to app. PLN 858 million.

PRELIMINARY AGREEMENT TO ACQUIRE ENTITIES CONTROLLING THE MILA CHAIN OF STORES

On 15th September 2017, Eurocash concluded the Preliminary Agreement with Argus Retail Holding Limited (company under Cypriot law), non-public closed-end investment fund Elbrus with its registered office in Warsaw, Robert Załęski and Stanisław Sosnowski of purchasing 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 ograniczoną odpowiedzialnością sp.j.), Investpol 700 Mila spółka jawna and "Koja-Mila spółka akcyjna" spółka jawna.

Value of the transaction was settled on PLN 350 m, excluding some real estate which will not be taken over by Eurocash.

Concluding the final agreement is subject to the conditions precedent agreed in the Preliminary Agreement, in particular to obtain by Eurocash the consent of the President of the Office of Competition and Consumer Protection.

Mila S.A. together with its subsidiaries, runs a chain of groceries in central Poland. At the end of 2016 the Mila Supermarket chain was consisted of 188 stores. Sales revenue reached PLN 1,49 bn, EBITDA reached PLN 4,8 m.

The acquisition of the Mila chain is with accordance to Eurocash M&A policy. Similar to take over of EKO chain it will enable Eurocash Group to develop competences in retail sales and logistics capacities, following improvement of the competitiveness of Eurocash Group's clients and as a consequence the potential increase in revenues of Eurocash Group.

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:

1. Acquisitions of regional small supermarket chains,

2. Opening stores run by franchisees,

3. Opening of own retail stores (in cooperation with partners investing in real estate).

Total investment to be realized with partners investing in real estate 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 potentially also companies running the Mila supermarket chain (acquisition of Mila chain is in progress due to antimonopoly office approval process). 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, potentially including Mila chain) app. 1,527 proximity supermarket stores with consolidated sales of app. PLN 5.1 bn and app. PLN 7.4 bn retail sales including revenues of Delikatesy Centrum franchised and own stores.

Restructuring of Eurocash Cash&Carry distribution format

In years 2014-2016 the number of Eurocash Cash&Carry outlets increased by 32 and the sales at this time remained at stable level. Not sufficient sales growth affected by sales cannibalization and deflation accompanied with increased level of fixed costs was main reason of Cash&Carry profitability decrease in 2016. In 2017 Eurocash closed in total 10 Cash&Carry stores. In effect of the closures 72% of sales has been retained and taken-over by the remaining Cash&Carry stores. Total costs of the closures amounted to app. PLN 10m (app. PLN 1m per closed Cash&Carry store) with PLN 6.7m impact on 2017 results.

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 is expected to be partially off-set by the increase of the level of wages resulting from the pressure on labour costs and inflation.

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.

3.3 RISKS AND THREATS

Financial risks are discussed in Note 34 to the consolidated financial statements for 2017, 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 2017, the traditional distribution channel was a significant form of FMCG retail distribution, representing the share of approx. 43%. 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 2017 comprised over 1 817 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 2017

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 FY2017 and was applied to all periods presented in the financial statement.

4.2 EUROCASH GROUP: FINANCIAL AND OPERATIONAL HIGHLIGHTS

PLN m	2017	2016	Change %
Sales revenues (traded goods, materials)	23 271,08	21 219,90	9,67%
EBITDA normalized*	360,71	440,49	-18,11%
Gross profit normalized*	134,71	235,92	-42,90%
Net profit normalized*	84,84	190,02	-55,35

*excluding impact of the paid costs of potential VAT liabilities on net profit

Table 4: *Eurocash Group: Highlights of financial performance in 2017*

Consolidated total sales of Eurocash Group in 2017 amounted to PLN 23 271.08 m and increased by 9.67% YoY. Sales growth was driven mainly by consolidation of acquired companies (EKO Holding S.A., FHC-2 Sp. z o.o., and PDA sp. z o.o.). EBITDA normalized in 2017 amounted to PLN 360.71 m compared with PLN 440.49 m previous year. Gross profit normalized amounted to PLN 134.71 m in comparison to PLN 235.92 m last year. Net profit normalized amounted to PLN 84.84 m compared with PLN 190.02 m previous year.

In the table below we present the basic financial and operating data of the Eurocash Group by distribution formats.

Table 5: *Eurocash Group: Sales dynamics by distribution format for 2017*

PLN m	2017	2016	Change %
Independent Wholesale	12 717,75	12 283,82	3,53%
Cash&Carry	4 312,89	4 342,52	-0,68%
Tobacco	5 695,89	5 568,99	2,28%
Alcohol	2 302,16	2 056,97	11,92%
Other with adjustments	406,82	315,33	29,01%
Integrated Wholesale	6 419,34	6 383,08	0,57%
Delikatesy Centrum	2 202,93	1 955,96	12,63%
Distribution	4 423,57	4 286,10	3,21%
Food Service	440,50	375,38	17,35%
Adjustments	-647,66	-234,36	176,35%
Retail	2 153,19	934,74	130,35%
Inmedio	578,39	556,52	3,93%
Delikatesy Centrum Own	717,14	378,22	89,61%
EKO	857,67	0,00	0,00%
Projects	552,04	271,35	103,44%
Eurocash Group	21 842,33	19 872,98	9,91%

Independent Wholesale

- In 2017 external sales of goods in Independent Wholesale segment amounted to PLN 12 717.75 m comparing to PLN 12 283.82 m in 2016 and increased by 3.53%.
- EBITDA of the Independent Wholesale segment amounted in 2017 to PLN 181.22 m comparing to PLN 252.31 m in the same period of 2016.
- Profitability of the segment was impacted by lower gross margin and restructuration of Cash & Carry distribution formats.
- LFL sales growth (same number of stores) in Eurocash Cash&Carry stores in 2017 amounted to negative 0.58%.
- The number of Eurocash Cash&Carry stores at the end of 2017 amounted to 180.
- The number of abc stores amounted to 8 531 at the end of 2017.
- Sales of cigarettes in Tobacco & Impulse distribution format in terms of volume amounted in 2017 to 9 513 m pieces and increased by 3.62% YoY.
- Sales of cigarettes in terms of value increased by 5.46% in 2017 YoY.
- Sales of goods in Eurocash Alkohole format was negatively impacted by discontinued sales to export clients and this effect was off-set by consolidation of acquired company Polska Dystrybucja Alkoholi with PLN 267.05 m sales in 2017.

Integrated Wholesale

- External wholesale sales of goods realized by Integrated Wholesale segment in 2017 amounted to PLN 6 419.34 m compared with PLN 6 383.08 m in previous year and increase by 0.57%. Total results of the segment is impacted by consolidation of acquired retail companies (FHC-2, Madas) and its sales transfer to Retail segment.
- Sales to Delikatesy Centrum was driven mainly by Fresh Project (in total segment result adjusted by its movement to Projects segment). Eurocash Distribution format sales was driven by its Franchisees (9.29% in 2017 YoY). Sales of Food Service distribution format was driven by new clients.
- EBITDA of the Integrated Wholesale segment amounted in 2017 to PLN 274.25 m comparing to PLN 270.49 m in 2016. LFL growth of wholesale sales realized by Eurocash to „Delikatesy Centrum" franchise stores amounted to 9.10% in 2017 YoY.
- LFL growth of retail sales of "Delikatesy Centrum" franchise stores amounted to 4.20% in 2017 YoY.
- Number of "Delikatesy Centrum" stores at the end of 2017 amounted to 1171. Total amount of stores include 30 net openings of stores in 2017 and 55 rebranded EKO stores.
- Number of partnership or franchise stores organized by companies belonging to Eurocash Group (Groszek, Euro Sklep, Lewiatan and PSD) amounted to 4 905 stores as of the end of 2017.

Retail

- Retail sales of goods realized by Retail segment in 2017 amounted to PLN 2 153.19 m compared with PLN 934.74 m last year. Retail sales was driven by acquisition of retail companies (EKO Holding, FHC-2 and Madas)

- EBITDA of the Retail segment amounted in 2017 to PLN 41.41 m comparing to PLN 33.18 m in 2016.
- LFL dynamic of retail sales in 2017 amounted in Inmedio stores to 2.26% in Inmedio stores and 2.02% in Delikatesy Centrum own stores. LFL sales of EKO stores due to rebranding process are not comparable to previous year, although Management Board observes its positive impact on sales growth.
- Number of retail stores at the end of 2017 amounted in Inmedio to 452, Delikatesy Centrum own 122 and EKO 228 (including 55 rebranded Delikatesy Centrum stores).
- In 2017 55 EKO stores was rebranded to Delikatesy Centrum format. Average cost of stores rebranding amounted to appx. PLN 150-180 k per store.
- Additionally in April 2017 EKO sold 3 stores to independent investors and at the same time fulfilled condition of Polish Antimonopoly Office, settled in its decision to allow Eurocash Group to acquire EKO Holding S.A.

Projects

- Sales of goods realized by Projects segment in 2017 amounted to PLN 552.04 m comparing to 271.35 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 2017 amounted to PLN 488.64 m comparing to PLN 234.36 m in 2016.
- Negative EBITDA contribution of Projects segment amounted in 2017 to PLN -49.09 m comparing to PLN -39.70 m last year.

Others

- EBITDA of Others segment amounted in 2017 to negative PLN -87.07 m comparing to PLN -75.78 m in 2016.

Table 6: Eurocash Group: Operating segments adjusted results in 2017 YTD

1Q YTD 2017 (PLN m)	Independent Wholesale	Integrated Wholesale	Retail	New Projects	Other	VAT settlements	Consolidation adj.	Total
Sales revenues (traded goods, materials)	3 200,35	1 771,27	537,83	112,42	0,00	0,00	-428,71	5 193,16
Sales of goods	2 822,55	1 452,90	505,23	111,52	0,00	0,00	0,00	4 892,19
EBIT	-4,22	31,89	0,81	-16,35	-19,11	0,00	0,00	-6,98
(EBIT margin %)	-0,13%	1,80%	0,15%	-14,54%	0	0	0	-0,13%
EBITDA	12,52	47,68	8,98	-15,50	-16,19	0,00	0,00	37,49
(EBITDA margin %)	0,39%	2,69%	1,67%	13,79%	0	0	0	0,72%

2Q YTD 2017 (PLN m)	Independent Wholesale	Integrated Wholesale	Retail	New Projects	Other	VAT settlements	Consolidation adj.	Total
Sales revenues (traded goods, materials)	7 034,12	3 774,58	1 111,52	249,77	0,13	0,00	-892,56	11 277,56
Sales of goods	6 198,23	3 073,35	1 050,06	247,36	0,00	0,00	0,00	10 569,00
EBIT	36,63	93,73	2,82	-27,02	-38,29	-114,40	0,00	-46,54
(EBIT margin %)	0,52%	2,48%	0,25%	-10,82%	0	0	0	-0,41%
EBITDA	70,69	125,47	20,18	-26,44	-32,15	-114,40	0,00	43,36
(EBITDA margin %)	1,00%	3,32%	1,82%	-10,58%	0	0	0	0,38%

3Q YTD 2017 (PLN m)	Independent Wholesale	Integrated Wholesale	Retail	New Projects	Other	VAT settlements	Consolidation adj.	Total
Sales revenues (traded goods, materials)	10 916,54	5 862,78	1 716,08	399,25	0,21	0,00	-1 429,73	17 465,14
Sales of goods	9 619,26	4 773,39	1 611,14	395,46	0,00	0,00	0,00	16 399,25
EBIT	70,85	148,28	2,28	-39,82	-55,58	-114,40	0,00	11,61
(EBIT margin %)	0,65%	2,53%	0,13%	-9,97%	0	0	0	0,07%
EBITDA	121,30	195,90	27,81	-39,25	-46,52	-114,40	0,00	144,83
(EBITDA margin %)	1,11%	3,34%	1,62%	-9,83%	0	0	0	0,83%

4Q YTD 2017 (PLN m)	Independent Wholesale	Integrated Wholesale	Retail	New Projects	Other	VAT settlements	Consolidation adj.	Total
Sales revenues (traded goods, materials)	14 460,06	8 065,17	2 272,87	557,25	0,31	0,00	-2 084,58	23 271,08
Sales of goods	12 717,76	6 419,34	2 153,19	552,04	0,00	0,00	0,00	21 842,34
EBIT	114,17	208,66	8,59	-53,06	-100,97	-114,40	0,00	62,99
(EBIT margin %)	0,79%	2,59%	0,38%	-9,52%	0	0	0	0,27%
EBITDA	181,22	274,25	41,41	-49,09	-87,08	-114,40	0,00	246,31
(EBITDA margin %)	1,25%	3,40%	1,82%	-8,81%	0	0	0	1,06%

1Q YTD 2016 (PLN m)	Independent Wholesale	Integrated Wholesale	Retail	New Projects	Other	Consolidation adj.	Total
Sales revenues (traded goods, materials)	3 009,01	1 740,54	233,54	43,34	0,00	-262,51	4 764,05
Sales of goods	2 702,88	1 543,20	218,52	42,89	0,00	0,00	4 507,48
EBIT	1,19	30,88	1,81	-7,66	-19,57	0,00	6,64
(EBIT margin %)	0,04%	1,77%	0,77%	-17,68%	0	0	0,14%
EBITDA	19,05	46,30	6,09	-7,08	-17,02	0,00	47,34
(EBITDA margin %)	0,63%	2,66%	2,61%	-16,33%	0	0	0,99%

2Q YTD 2016 (PLN m)	Independent Wholesale	Integrated Wholesale	Retail	New Projects	Other	Consolidation adj.	Total
Sales revenues (traded goods, materials)	6 588,70	3 607,80	467,20	102,89	0,00	-661,78	10 104,81
Sales of goods	5 862,76	3 099,04	447,07	102,01	0,00	0,00	9 510,89
EBIT	47,56	70,66	4,81	-16,40	-29,95	0,00	76,68
(EBIT margin %)	0,72%	1,96%	1,03%	-15,94%	0	0	0,76%
EBITDA	83,07	100,54	13,14	-15,44	-23,70	0,00	157,61
(EBITDA margin %)	1,26%	2,79%	2,81%	-15,01%	0	0	1,56%

3Q YTD 2016 (PLN m)	Independent Wholesale	Integrated Wholesale	Retail	New Projects	Other	Consolidation adj.	Total
Sales revenues (traded goods, materials)	10 414,01	5 622,32	721,45	172,17	0,00	-1 063,97	15 865,99
Sales of goods	9 258,77	4 799,77	691,53	170,94	0,00	0,00	14 921,00
EBIT	100,98	126,16	8,48	-27,43	-50,43	0,00	157,76
(EBIT margin %)	0,97%	2,24%	1,17%	-15,93%	0	0	0,99%
EBITDA	156,24	171,39	21,01	-25,91	-41,88	0,00	280,85
(EBITDA margin %)	1,50%	3,05%	2,91%	-15,05%	0	0	1,77%

4Q YTD 2016 (PLN m)	Independent Wholesale	Integrated Wholesale	Retail	New Projects	Other	Consolidation adj.	Total
Sales revenues (traded goods, materials)	13 885,71	7 531,66	976,47	274,95	0,00	-1 448,89	21 219,90
Sales of goods	12 281,97	6 383,08	934,74	273,19	0,00	0,00	19 872,98
EBIT	178,65	208,24	16,19	-41,53	-87,27	0,00	274,28
(EBIT margin %)	1,29%	2,76%	1,66%	-15,10%	0	0	1,29%
EBITDA	252,31	270,49	33,18	-39,70	-75,78	0,00	440,49
(EBITDA margin %)	1,82%	3,59%	3,40%	-14,44%	0	0	2,08%

Table 7: *Eurocash Group: Operating segments results in 2016 YTD*

1Q YTD 2015 (PLN m)	Independent Wholesale	Integrated Wholesale	Retail	New Projects	Other	Consolidation adj.	Total
Sales revenues (traded goods, materials)	2 954,02	1 707,82	132,10	7,06	0,00	-195,24	4 605,77
Sales of goods	2 738,82	1 520,67	123,07	7,03	0,00	0,00	4 389,59
EBIT	3,53	14,91	1,18	-3,80	-9,05	0,00	6,76
(EBIT margin %)	0,12%	0,87%	0,89%	-53,91%	0	0	0,15%
EBITDA	18,31	29,41	3,84	-3,52	-6,25	0,00	41,78
(EBITDA margin %)	0,62%	1,72%	2,90%	-49,91%	0	0	0,91%
2Q YTD 2015 (PLN m)	Independent Wholesale	Integrated Wholesale	Retail	New Projects	Other	Consolidation adj.	Total
Sales revenues (traded goods, materials)	6 358,02	3 562,15	267,13	14,53	0,00	-414,37	9 787,46
Sales of goods	5 861,96	3 170,27	248,26	14,27	0,00	0,00	9 294,76
EBIT	53,57	49,84	2,80	-8,37	-15,73	0,00	82,10
(EBIT margin %)	0,84%	1,40%	1,05%	-57,61%	0	0	0,84%
EBITDA	86,48	79,05	8,16	-7,71	-10,16	0,00	155,81
(EBITDA margin %)	1,36%	2,22%	3,05%	-53,05%	0	0	1,59%
3Q YTD 2015 (PLN m)	Independent Wholesale	Integrated Wholesale	Retail	New Projects	Other	Consolidation adj.	Total
Sales revenues (traded goods, materials)	9 892,98	5 587,01	408,92	21,53	0,00	-636,39	15 274,04
Sales of goods	9 120,41	4 987,77	382,08	21,16	0,00	0,00	14 511,42
EBIT	114,83	101,50	3,67	-13,03	-27,18	0,00	179,81
(EBIT margin %)	1,16%	1,82%	0,90%	-60,50%	0	0	1,18%
EBITDA	164,20	145,49	12,50	-11,93	-19,34	0,00	290,92
(EBITDA margin %)	1,66%	2,60%	3,06%	-55,42%	0	0	1,90%
4Q YTD 2015 (PLN m)	Independent Wholesale	Integrated Wholesale	Retail	New Projects	Other	Consolidation adj.	Total
Sales revenues (traded goods, materials)	13 161,89	7 486,98	555,64	30,09	0,00	-916,39	20 318,21
Sales of goods	12 029,58	6 661,87	518,64	29,49	0,00	0,00	19 239,58
EBIT	204,37	186,85	9,53	-19,07	-56,61	0,00	325,08
(EBIT margin %)	1,55%	2,50%	1,72%	-63,38%	0	0	1,60%
EBITDA	271,84	245,84	21,33	-17,56	-45,82	0,00	475,63
(EBITDA margin %)	2,07%	3,28%	3,84%	-58,36%	0	0	2,34%

Table 8: *Eurocash Group: Operating segments results in 2015 YTD*

4.3 PROFIT AND LOSS ACCOUNT – PROFITABILITY ANALYSIS

PLN m	2017	2016	Change %
Sales revenues (traded goods, materials)	23 271,08	21 219,90	9,67%
Gross profit (loss) on sales	2 440,98	2 112,12	15,57%
Gross profitability on sales (%)	10,49%	9,95%	0,54 p.p.
EBITDA normalized*	360,71	440,49	-18,11%
(Normalized EBITDA margin %)	1,55%	2,08%	-0,53 p.p.
Total impact of potential VAT liabilities on net profit	114,40	-	-
EBITDA reported	246,31	440,49	-44,08%
(Reported EBITDA margin %)	1,06%	2,08%	-1,02 p.p.
EBIT normalized*	177,40	274,28	-35,32%
EBIT reported	62,99	274,28	-77,03%
(Normalized EBIT margin %)	0,76%	1,29%	-0,53 p.p.
(Reported EBIT margin %)	0,27%	1,29%	-1,02 p.p.
Gross profit normalized*	134,71	235,92	-42,90%
Gross profit reported	20,31	235,92	-91%
Net profit normalized*	84,84	190,02	-55,35%
Net profit reported	(29,56)	190,02	-116%

Table 9: *Eurocash Group: Financial Performance for 2017*

**excluding impact of the paid costs of potential VAT liabilities on net profit*

Consolidated sales of Eurocash Group in 2017 amounted to PLN 23 271.08 m and increased by 9.67% YoY. Sales growth was driven mainly by consolidation of acquired companies (EKO Holding S.A., FHC-2 Sp. z o.o., and PDA sp. z o.o.).

EBITDA normalized in 2017 amounted to PLN 360.71 m compared with PLN 440.49 m previous year (a decrease by 18.11%). Decrease of EBITDA was attributable mainly to lower profitability in Independent Wholesale segment, integration of acquired companies, one-off costs, as well as increase of spending for strategic projects to strengthen position of independent retailers such as extension of the offer for Delikatesy Centrum stores by fresh products and development of innovative retail formats under brands: Kontigo, 1 minute, abc on wheels, Duży Ben.

The net profit normalized in 2017 reached PLN 84.84 m, which means 55.35% decrease YoY. Net profit was impacted by higher interest costs due to increased leverage driven by M&A and potential VAT liability payment.

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:

PLN m	31.12.2017	%	31.12.2016	%
Non-current assets (long-term)	**2 526,97**	**42,26%**	**2 287,97**	**41,64%**
Goodwill	1 401,34	55,46%	1 254,11	54,81%
Intangible assets	347,09	13,74%	358,32	15,66%
Property, plant and equipment	678,99	26,87%	587,39	25,67%
Investment real property	0,97	0,04%	0,99	0,04%
Investments in equity accounted investees	32,42	1,28%	34,95	1,53%
Other long-term investments	30,78	1,22%	0,53	0,02%
Long-term receivables	7,16	0,28%	3,25	0,14%
Deferred tax assets	26,32	1,04%	47,08	2,06%
Other long-term prepayments	1,91	0,08%	1,34	0,06%
Current assets (short-term)	**3 452,96**	**57,47%**	**3 207,03**	**58,36%**
Inventories	1 320,25	38,24%	1 088,91	33,95%
Trade receivables	1 682,84	48,74%	1 748,18	54,51%
Current tax receivables	11,58	0,34%	16,56	0,52%
Other short-term receivables	143,07	4,14%	139,87	4,36%
Other short-term financial assets	50,43	3,82%	5,71	0,00%
Short-term prepayments	42,17	1,22%	45,92	1,43%
Cash and cash equivalents	202,60	5,87%	161,87	5,05%
Total assets	**5 979,92**	**100,00%**	**5 495,00**	**100,00%**

Table 10: *Eurocash Group: Mix of Assets*

PLN m	31.12.2017	%	31.12.2016	%
Equity	**1 030,01**	**17,22%**	**1 155,10**	**21,02%**
Equity attributable to Owners of the Company	**966,33**	**93,82%**	**1 085,65**	**93,99%**
Share capital	139,16	13,51%	139,10	12,04%
Reserve capital	1 460,76	141,82%	1 352,63	117,10%
Hedging reserve	(6,48)	-0,63%	(6,31)	-0,55%
Option for purchase/selling the shares	(54,71)	-5,31%	(69,19)	-5,99%
Retained earnings	(572,39)	-55,57%	(330,58)	-28,62%
Non-controlling interests	(539,08)	94,18%	(509,80)	-44,13%
Profit (loss) for the period	(33,31)	5,82%	179,22	15,52%
Non-controlling interests	63,67	6,18%	69,45	6,01%
Non-current liabilities	**96,11**	**1,94%**	**266,18**	**6,13%**
Long-term financial liabilities	4,93	5,13%	154,32	57,98%
Other long-term liabilities	58,15	60,50%	72,64	27,29%
Deferred tax liabilities	25,43	26,46%	33,71	12,66%
Employee benefits	6,48	6,75%	4,97	1,87%
Provisions	1,11	1,16%	0,53	0,20%
Current liabilities	**4 853,81**	**98,06%**	**4 073,71**	**93,87%**
Loans and borrowings	317,78	6,55%	275,07	6,75%
Short-term financial liabilities	249,44	5,14%	56,62	1,39%
Trade payables	3 940,90	81,19%	3 459,30	84,92%
Current tax liabilities	7,72	0,16%	7,56	0,19%
Other short-term payables	93,69	1,93%	71,55	1,76%
Current employee benefits	102,60	2,11%	84,54	2,08%
Provisions	141,68	2,92%	119,08	2,92%
Liabilities	**4 949,92**	**82,78%**	**4 339,89**	**78,98%**
Total equity and liabilities	**5 979,92**	**100,00%**	**5 495,00**	**100,00%**

***Table 11:** Eurocash Group: Mix of Liabilities*

Loan Agreements, Warranties and Collaterals

Loan agreements

Information on credit agreements concluded by the Group Eurocash is presented in Note 21 to the consolidated financial statements for 2017.

Loans granted

In 2017, 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 no. 32 to the consolidated financial statements for 2017.

Issue of Securities and Bonds in 2017

Issue of shares

In the period between 1st January 2017 and 31st December 2017, 66 925 shares were issued.

Issue of securities and bonds

At the end of 2017 Eurocash total nominal value of issued bonds amounted to:

- PLN 140.0 m bonds issued under the long-term bonds issue program
- PLN 80.0 m bonds issued under the commercial paper program

Information on incentive schemes based on the issue of Eurocash shares is provided in section 6.6.

4.5 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 no. 32 and 33.

4.6 EUROCASH GROUP CASH FLOW ANALYSIS

Cash flow Statement

PLN m	2017	2016
Operating cash flow	493,59	324,02
Gross profit (loss)	20,31	235,92
Depreciation	183,32	166,21
Change in working capital	247,11	(99,40)
Other	42,85	21,29
Cash flow from investments	(335,71)	(269,94)
Cash flow from financing activities	(117,15)	21,59
Total cash flow	40,73	75,67

Table 12: *Eurocash Group: Cash flows for 2017*

EUROCASH GRUPA

Total cash flow in 2017 amounted to PLN 40.73 m and operational cash flows amounted to PLN 493.59 m.

Cash flow from investment activities amounted to negative PLN 335.71 m in 2017 and cash flow from financing activities amounted to PLN 117.15 m.

Working capital rotation

Turnover in days	2017	2016
1.Inventories turnover	20,71	18,78
2. Trade receivables turnover	26,39	30,15
3. Trade liabilities turnover	69,06	66,26
4. Operating cycle (1+2)	47,10	48,93
5. Cash conversion (4-3)	(21,95)	(17,33)

Table 13: *Eurocash Group: Consolidated Working Capital Ratios*

Cash conversion in 2017 reached -21.95 days comparing with -17.33 days in 2016 which means improvement by 4,62 days.

Evaluation of Funds Management

The Eurocash Group generates positive cash flows from operations. All key investments carried out in 2017 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 34 in the part of the report which contains consolidated financial statements.

4.7 INVESTMENT ACTIVITY

Major investments Completed in 2017

In 2017, the largest share in capital expenditure had expenses related to investments in the Independent Wholesale segment - nearly half of the funds allocated for investments (45%). 1/3 of the expenditure was used by capital investments (including acquisition of shares and stock).

PLN m	2017	2016
Capital investment (including acquisition of shares and stock)	94,91	80,84
Independent Wholesale	134,18	108,50
Integrated Wholesale	42,21	41,23
Retail	21,92	14,81
Projects	5,39	10,54
Others	1,52	2,44
Total investment outlays	**300,13**	**258,36**

Table 14: *Eurocash Group: Key Investment Directions for Eurocash Group in 2017*

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,
- Finalization of Mila stores acquisition – after permission from UOKiK,
- 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.

4.8 KEY CONTRIBUTORS TO 2017 FINANCIAL PERFORMANCE OF EUROCASH GROUP

Equity Changes

In the period between 1st January 2017 and 31st December 2017, 66 925 were issued.

Dividend Payment

In accordance with Resolution No. 5 adopted by the Annual General Meeting on 25th April 2017, persons who were shareholders of the Company on 16th May 2017, received 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 2017, 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 2017, the Eurocash Group companies entered into the following agreements considered significant

for the Group's business operations:

Acquisition of 100% of shares in EKO Holding S.A

On 4th January 2017 Eurocash acquired 100% of shares in EKO Holding S.A. with its registered office in Nowa Wieś Wrocławska („EKO"). Thereby, Eurocash acquired a network of 248 grocery stores of EKO (operating mostly in south-western Poland), which will allow further development of the Eurocash Group and better use of its capability. According to the received information, the total sales of the company in 2017 amounted to app. PLN 858 million.

PRELIMINARY AGREEMENT TO ACQUIRE ENTITIES CONTROLLING THE MILA CHAIN OF STORES

On 15th September 2017, Eurocash concluded the Preliminary Agreement with Argus Retail Holding Limited (company under Cypriot law), non-public closed-end investment fund Elbrus with its registered office in Warsaw, Robert Załęski and Stanisław Sosnowski of purchasing 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 ograniczoną odpowiedzialnością sp.j.), Investpol 700 Mila spółka jawna and "Koja-Mila spółka akcyjna" spółka jawna.

Value of the transaction was settled on PLN 350 m, excluding some real estate which will not be taken over by Eurocash.

Concluding the final agreement is subject to the conditions precedent agreed in the Preliminary Agreement, in particular to obtain by Eurocash the consent of the President of the Office of Competition and Consumer Protection.

Mila S.A. together with its subsidiaries, runs a chain of groceries in central Poland. At the end of 2016 the Mila Supermarket chain was consisted of 188 stores. Sales revenue reached PLN 1,49 bn, EBITDA reached PLN 4,8 m.

The acquisition of the Mila chain is with accordance to Eurocash M&A policy. Similar to take over of EKO chain it will enable Eurocash Group to develop competences in retail sales and logistics capacities, following improvement of the competitiveness of Eurocash Group's clients and as a consequence the potential increase in revenues of Eurocash Group.

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

In the 2017 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 2017 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 2017 or 2018.

5.6 CHANGES IN KEY MANAGEMENT PRINCIPLES

Resignation of member of the management board

On 13th January 2017 Mr. David Boner resigned from function of Member of the Management Board of Eurocash, with effect on 13th January 2017.

Appointment of member of the management board

On 22nd February 2017 Supervisory Board of Eurocash agreed the resolution regarding the appointment on 22nd February 2017 Mr. Przemysław Ciaś on the function of Member of the Management Board of Company.

2017 saw no other changes in key management principles.

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.

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 2017 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 consolidated financial statements of Eurocash Group for 2016 were audited by KPMG Audyt Sp. z o.o. sp.k. on the basis of a contract concluded on 24th June 2016.

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:

thousands of PLN	2017	2016
Audit of financial statements	500,0	580,0
Review of financial statements	251,0	250,0
Other services	1,2	15,0
Total capital expenditures	752,2	845,00

Table 15: *Eurocash Group: Capital expenditures for audit and review of financial statements*

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."), available on the following website www.corp-gov.gpw.pl.

In the financial year ended on December 31, 2017, 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: http://eurocash.pl/eng/investor-relations/corporate-governance.html.

6.2 SHAREHOLDERS STRUCTURE

Shareholders with Direct or Indirect Substantial Shareholding in Eurocash

As at 31st December 2017 the structure of shareholders holding directly or indirectly large blocks of shares in Eurocash S.A. was as below.

	31.12.2017				31.12.2016			
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.)	60 843 178	43,72%	60 843 178	43,72%	60 615 240	43,58%	60 615 240	43,58%
Azvalor Asset Management S.G.I.I.C. S.A.	7 498 451	5,39%	7 498 451	5,39%	-	-	-	-
Others	70 821 657	50,89%	78 320 108	50,89%	78 481 121	56,42%	78 481 121	56,42%
Total	**139 163 286**	**100,00%**	**139 163 286**	**100,00%**	**139 096 361**	**100,00%**	**139 096 361**	**100,00%**

Table 16: *Shareholders with Direct or Indirect Substantial Shareholding in Eurocash*

Notification of change in shareholding resulting in an entity holding shares to which is attached above 5% of the total number of votes at a General Meeting of the Company

On 22 November 2017, it was notified by Azvalor Asset Management S.G.I.I.C. S.A. together with the direct and indirect subsidiaries, that Azvalor became the holder of shares to which is attached more than 5% of the total number of votes at a General Meeting of EUROCASH S.A. As at 22 November 2017, Azvalor held a total of 7,498,451 shares constituting 5.39% of the share capital of EUROCASH S.A. These shares entitled to 7,498,451 votes constituting 5.39% of the share in the total number of votes at the General Meeting of EUROCASH S.A.

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 31.12.2017 was as follows:

	Eurocash shareholding		Share subscription rights	
Management Board	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Luis Amaral (directly and indirectly through Politra B.V. S.à.r.l.)	60 843 178	60 615 240	0	0
Rui Amaral	347 025	347 025	0	50 000
Katarzyna Kopaczewska	330 000	330 000	0	0
Arnaldo Guerreiro	325 500	325 500	0	0
Pedro Martinho	839 069	818 050	0	0
Jacek Owczarek	58 500	58 500	0	0
Przemysław Ciaś	0	Not applicable	0	Not applicable
David Boner	Not applicable	0	Not applicable	0

Table 17: *Shares in the company held by members of the management board and their rights to subscription*

	Eurocash shareholding		Share subscription rights	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
João Borges de Assuncao	0	0	0	0
Eduardo Aguinaga de Moraes	0	0	0	0
Francisco José Valente Hipólito dos Santos	0	0	0	0
Hans Joachim Körber	0	0	0	0
Jacek Szwajcowski	0	0	0	0

Table 18: *Shares in the company held by supervisory board and rights to subscription*

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.

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.

6.3 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 in the period January 1st – December 31st 2017 is presented below.

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*
Jacek Owczarek	*Member of the Management Board – Financial Director*
Katarzyna Kopaczewska	*Member of the Management Board – HR Director*
Przemysław Ciaś	*Member of the Management Board*

Table 19: *The composition of the Management Board at the end of 2017*

On 13th January 2017 Mr. David Boner resigned from function of Member of the Management Board of Eurocash, with effect on 13th January 2017.

On 22nd February 2017 Supervisory Board of Eurocash agreed the resolution regarding the appointment on 22nd February 2017 Mr. Przemysław Ciaś on the function of Member of the Management Board of Company.

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,

XIII. 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:

http://eurocash.pl/pub/pl/uploaddocs/lad-korporacyjny-zalaczniki/regulamin-zarzadu-2008-pol.2505601311.pdf

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

Information on remuneration paid to the members of the Management Board in 2017 is provided in the section of the annual report which contains the annual consolidated financial statements, in note n. 30.

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 2017 was as presented in the table below.

João Borges de Assuncao	*Chairman of the Supervisory Board*
Eduardo Aguinaga de Moraes	*Member 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*

Table 20: *The composition of the Supervisory Board in 2017*

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

I. Mr. Jacek Szwajcowski and Hans Joachim Körber as Supervisory Board members, appointed by the Company's General Shareholders' Meeting, and

II. Mr. João Borges de Assunção, appointed by Politra B.V. S.a.r.l, who submitted representation which meet criteria of an independent Supervisory Board member.

Thus, 3 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:

I. 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;

II. assessment of the Management Board's recommendations concerning distribution of profit or loss cover;

III. submitting to the General Shareholders' Meeting an annual written report on the results of the assessment referred to above;

IV. appointing and recalling, as well as suspending Members of the Management Board for an important reason;

V. issuing opinions on planned amendments to the Company's Articles of Association;

VI. approving annual budgets drafted by the Management Board and amendments to such budgets no later than by 30 November of each calendar year;

VII. 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;

VIII. electing an expert auditor to examine the Company's financial statements;

IX. adopting a uniform text of the Articles of Association;

X. 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:

XI. decisions concerning joint-ventures with other entities;

XII. decisions concerning mergers with other entities as well as acquisitions of other entities or enterprises;

XIII. 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;

XIV. 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;

XV. issuing opinions concerning the determination and changes in remuneration levels or terms of employment of Management Board Members;

XVI. raising, issue, taking up or disposal of shares in another subsidiary entity;
XVII. development and modification of any stock option scheme or an incentive scheme of a similar nature for the Company's management and employees;

XVIII. 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:

I. any action by the Company or any of its related entity that benefits the Members of the Management Board;

II. election of an expert auditor to examine the Company's financial statements;

III. 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;

IV. 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:

http://eurocash.pl/pub/eng/uploaddocs/lad-korporacyjny-zalaczniki/unified-text-of-sb-by-laws-2009.2598766460.pdf

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

Information on remuneration paid to the members of the Supervisory Board in 2016 is provided in the section of the annual report which contains the annual consolidated financial statements, in note n. 30.

Supervisory Board Committees

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

I. the Audit Committee, and

II. the Remunerations 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:

I. supervising the submission of financial information by the Company in the periodical reports, forecasts, etc.,

II. supervising the activities of external auditors of the Company,

III. giving the opinion on the candidates for the Company's external auditors to be elected by the Supervisory Board, where external auditors should be changed at least once every 7 years,

IV. supervising the relationship with the external auditor, including in particular assessing the external auditor's independence, remuneration and any non-auditing work for the Company, as well as determining the involvement of the external auditor with respect to the content and publication of financial reporting,

V. each year, evaluating the internal control system in place and the significant risk management system in place, as well as self-evaluation in a form of an annual report of its deliberations, findings, and relationships with the external auditor (in particular, including his/her independence) to be included as part of the Supervisory Board's annual report to be presented at the Ordinary General Meeting of Shareholders.

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

Responsibilities of the Remunerations Committee include as follows:

I. 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 (a) the remuneration structure, (b) the amount of fixed remuneration, (c) 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,

II. 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,

III. ensuring the disclosure to the Supervisory Board of the remuneration of the Management Board resulting from an implementation of the remuneration policy,

IV. 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: Messrs Eduardo Aguinaga de Moraes (Chairman), Francisco José Valente Hipólito dos Santos and Hans Joachim Körber.

The rules governing the operations of both committees are regulated in detail in Section VII of the Supervisory Board Rules available at the following address:

http://eurocash.pl/pub/eng/uploaddocs/lad-korporacyjny-zalaczniki/unified-text-of-sb-by-laws-2009.2598766460.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:

http://eurocash.pl/pub/eng/uploaddocs/lad-korporacyjny-zalaczniki/unified-text-of-gm-by-laws-2009.3341172403.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:

I. 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;

II. 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;

III. sale or lease of the enterprise or an organized part thereof as well as the creation of limited property rights therein;

IV. creation of the Company's capitals and funds and their allocation;

V. approval of the Company's long-term strategic plans;

VI. adopting resolutions on the distribution of profit and loss cover;

VII. amending the Articles of Association;

VIII. increasing and decreasing the Company's share capital;

IX. dissolution or liquidation of the Company;

X. authorization for the Company to enter into a standby or firm commitment underwriting agreements;

XI. appointment or dismissal of two members of the Supervisory Board;

XII. setting down the rules for and levels of remuneration of members of the Supervisory Board;

XIII. adopting the Rules of the Supervisory Board;

XIV. dismissal or suspension of members of the Management Board;

XV. adopting the Rules of the General Meeting;

XVI. 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.

6.4 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.

6.5 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.

6.6 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 31.12.2017, 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.

In the year ended 31.12.2016, options were exercised for 267,050 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 10.177.900.

The fair value of shares granted in the period from 01.01.2017 to 31.12.2017 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 2016, no share options were granted).

The table on the next page presents the numbers and weighted average exercise prices of stock options as part of the employee share program.

	Number of options	Weighted average prices (PLN/share)
Occuring at the beginning of the reporting period	434 275	38,00
Granted in the reporting period	2 906 250	32,51
Made in the reporting period	(66 925)	38,00
Expired in the reporting period	(367 350)	38,00
Occuting at the end of the reporting period	2 906 250	32,51
including: Possible to be perform at the end of the reporting period	2 906 250	32,51

Table 21: *Stock options for the period from 01.01.2017 to 31.12.2017*

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

6.7 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, 2017 no weaknesses existed which could have a material adverse effect on the effectiveness of internal controls as far as financial reporting is concerned.

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 2017

- the report of the Management Board on business operations of Eurocash Group in 2017 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 2017.

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.

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 of the Management Board	Luis Amaral	22nd March 2018	
Member of the Management Board Chief Executive Officer	Rui Amaral	22nd March 2018	
Member of the Management Board	Arnaldo Guerreiro	22nd March 2018	
Member of the Management Board	Pedro Martinho	22nd March 2018	
Member of the Management Board Human Resources Director	Katarzyna Kopaczewska	22nd March 2018	
Member of the Management Board Financial Director	Jacek Owczarek	22nd March 2018	
Member of the Management Board	Przemysław Ciaś	22nd March 2018	

PART B

NON-FINANCIAL REPORT
- CORPORATE SOCIAL RESPONSIBILITY

KOMORNIKI, March 22 2018

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LETTER FROM A BOARD MEMBER

Dear Readers,

For years, responsibility has been one of the key values of the Eurocash Group. We are aware of how important and integral part of doing business today is its social responsibility. For us, this is the foundation and principles on which we base our business strategy. The year 2017 was significant in terms of understanding the impact and associated responsibility of our organization on the environment not only in economic but also social and environmental dimensions. Therefore we have decided to develop this report in accordance with the international guidelines of the Global Reporting Initiative.

The main strength of Eurocash is our employees, they ensure our efficient functioning and development. Therefore, as a priority, we treat their safety and job satisfaction. The consequence of this approach is to provide them with opportunities for comprehensive development, the use of attractive sports packages, multifaceted support for families, and, more recently, free private medical care. We often listen to their ideas and conduct a continuous dialogue through projects like the Box of Ideas or periodic chats with the Board. Employees themselves are also trying to help others, for years they provide Christmas presents for foster children of orphanages and organize and join in numerous charity collection for those in need.

The superior goal of Eurocash Group is to support our clients - independent entrepreneurs managing retail stores. We focus on increasing their competitiveness and offering them added value. We provide them with above all the necessary knowledge and its continuous development through our original project - Eurocash Academy of Skills, in which over 50,000 business owners took part. In 2017, we extended it to the direction we designed especially on post-graduate studies at the Warsaw School of Economics. We do not forget about supporting their social activities. In 2017, we organized the Retail Trade Plebiscite „Heroes of Polish Entrepreneurship„, in which, among other things, we promoted and rewarded entrepreneurs conducting activities for their local communities.

The Eurocash Group has a significant impact on the development of the Polish economy by trading in goods worth more than PLN 23 billion, providing jobs for several thousand people or supporting the development of over 14,000 retail stores concentrated in franchise and partner networks. The wide scale of our activities is unfortunately associated with environmental impact, including through exhaust fumes or waste generation. In this field, we try to minimize our negative impact as much as possible - we reduce energy consumption, optimize fuel combustion in cars, and give food to the needy.

Thanks to the continuous improvement of our activities, we are convinced that next year's report will be able to present new strategic projects that will contribute to the development of our employees and customers, reduce our negative impact on the environment and increase our positive social impact. In the meantime, I cordially invite you to read the CSR report for 2017.

CZŁONEK ZARZĄDU

Jacek Owczarek

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 14,000 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.

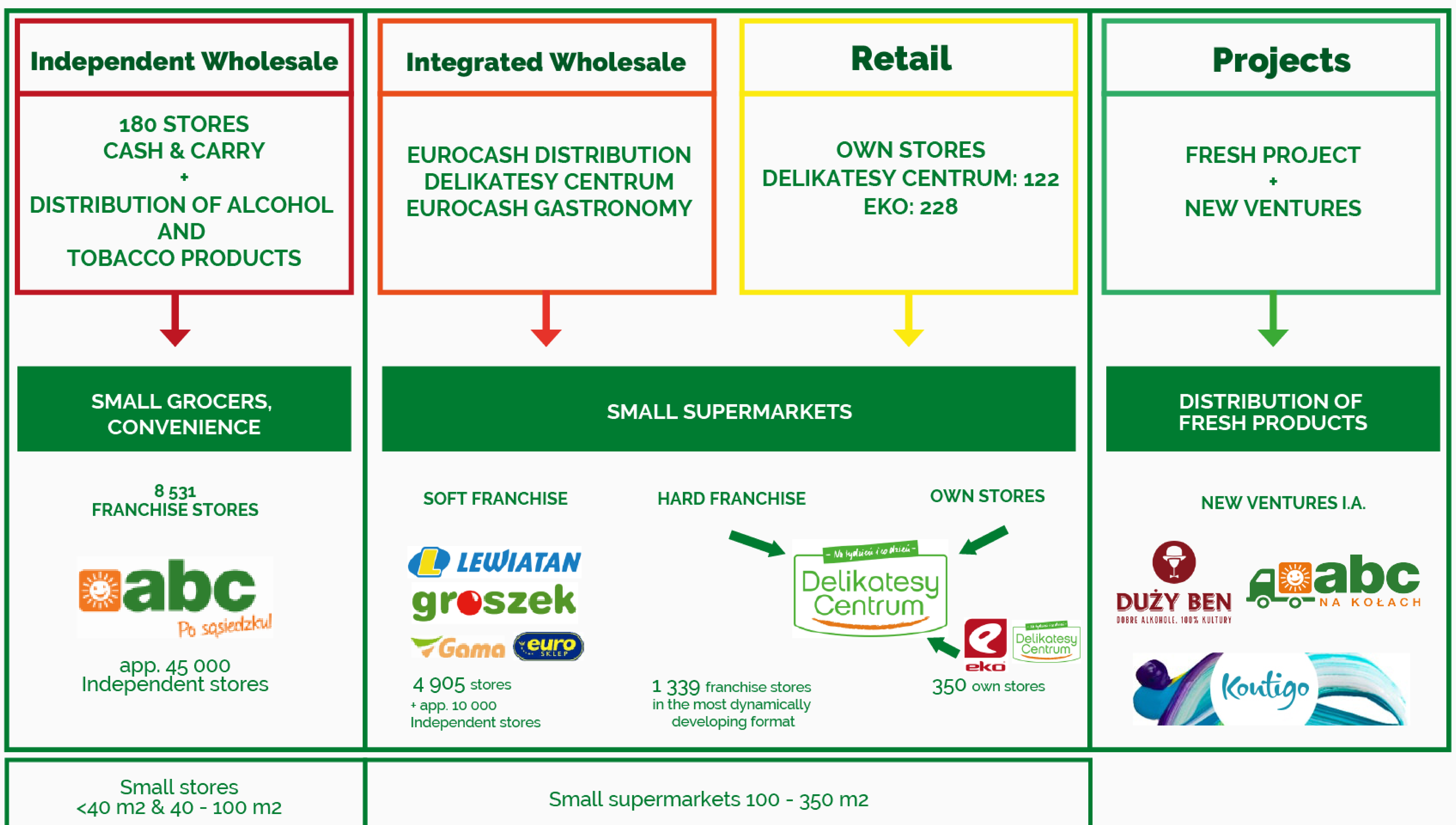


Chart 1. *Eurocash Group: Focused on small format stores*

Source: Own study

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

Independent Wholesale - those distribution formats whose clients do not have permanent contracts with the Eurocash Group

- **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,
- **Othe**r - sales revenues of PayUp Polska S.A.

Integrated Wholesale - those distribution formats whose clients have long-term agreements with Eurocash Group, e.g. franchise systems or clients from the HoReCa segment

- **Delikatesy Centrum** – a franchise system for retail stores operating under the brand "Delikatesy Centrum",
- **Eurocash Food Service** – wholesale and retail distribution of alcoholic beverages throughout Poland,
- **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.), and

  - 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).

Retail - retail sales of Eurocash Group companies

- **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.,
- **Inmedio** – press retail kiosks under Inmedio brand.

Projects - new projects running by Eurocash S.A. and its subsidiaries: 1minute, Kontigo, abc na kołach, Duży Ben, Sushi To Go, 4Vapers and fresh product distribution to Delikatesy Centrum stores realized by Eurocash Detal Sp. z o.o.

Others

Sales revenues and costs of among others central departments impact for the Group, not assigned to any segment.

Table 1: Eurocash Group: Highlights of financial data

PLN m	2017	2016
Sales revenues (traded goods, materials)	23 271.08	21 219.90
Remuneration	1 024.01	780.93
Gross profit on sales	2 440.98	2 112.12
EBITDA	360.71*	440.49
Net profit	84.84*	190.02

*excluding impact of the paid costs of potential VAT liabilities on net profit

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 31st December 2017, the wholesale network of Eurocash Group comprised 180 Cash&Carry warehouses. The Delikatesy Centrum network comprised 1171 supermarkets, while the 'abc' network comprised 8 531 local grocery stores and number of stores associated in networks managed by Eurocash Dystribution was 4 905. Information on the number of Cash & Carry Warehouses, Delikatesy Centrum stores, 'abc' store network and stores associated in Eurocash Distribution is presented on the next page.

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

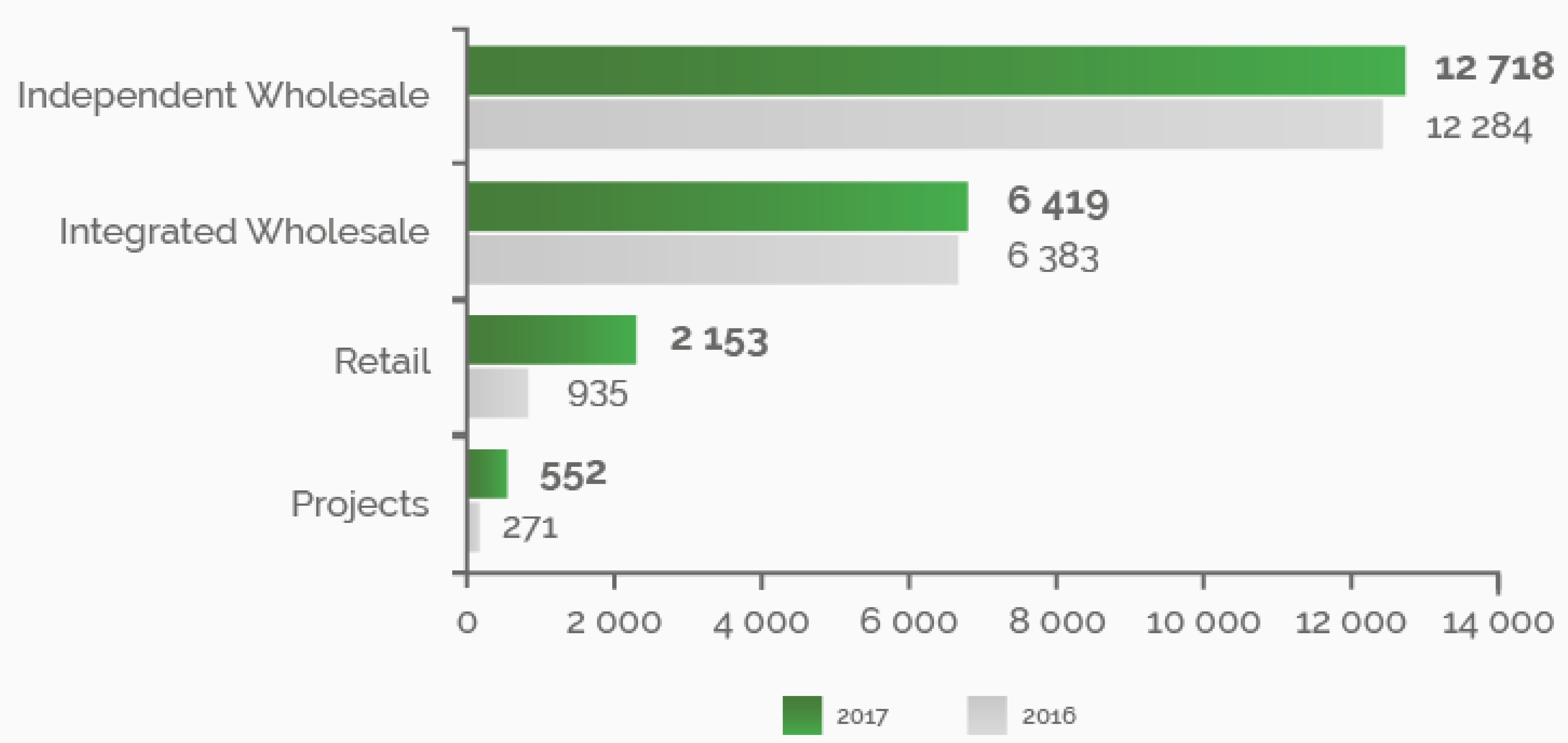
	As at 31st December 2017	As at 31st December 2016
Cash & Carry Warehouses	180	190
Delikatesy Centrum	1 171	1 086
„abc" store network	8 531	8 605
Inmedio newsagents	452	476
Franchise and partner stores of Eurocash Distribution*	4 905	4750

*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 2016 and 2017 are presented in the chart below.

Chart 2. *Eurocash Group: Sales in 2017 according to the segments (PLN m)*



Source: Own study

In 2018, as part of the strategy update and to improve the transparency of reporting, the Eurocash Group will present results split on two segments: Wholesale and Retail.

In the wholesale segment, revenues from the sale of distribution formats will consist of:

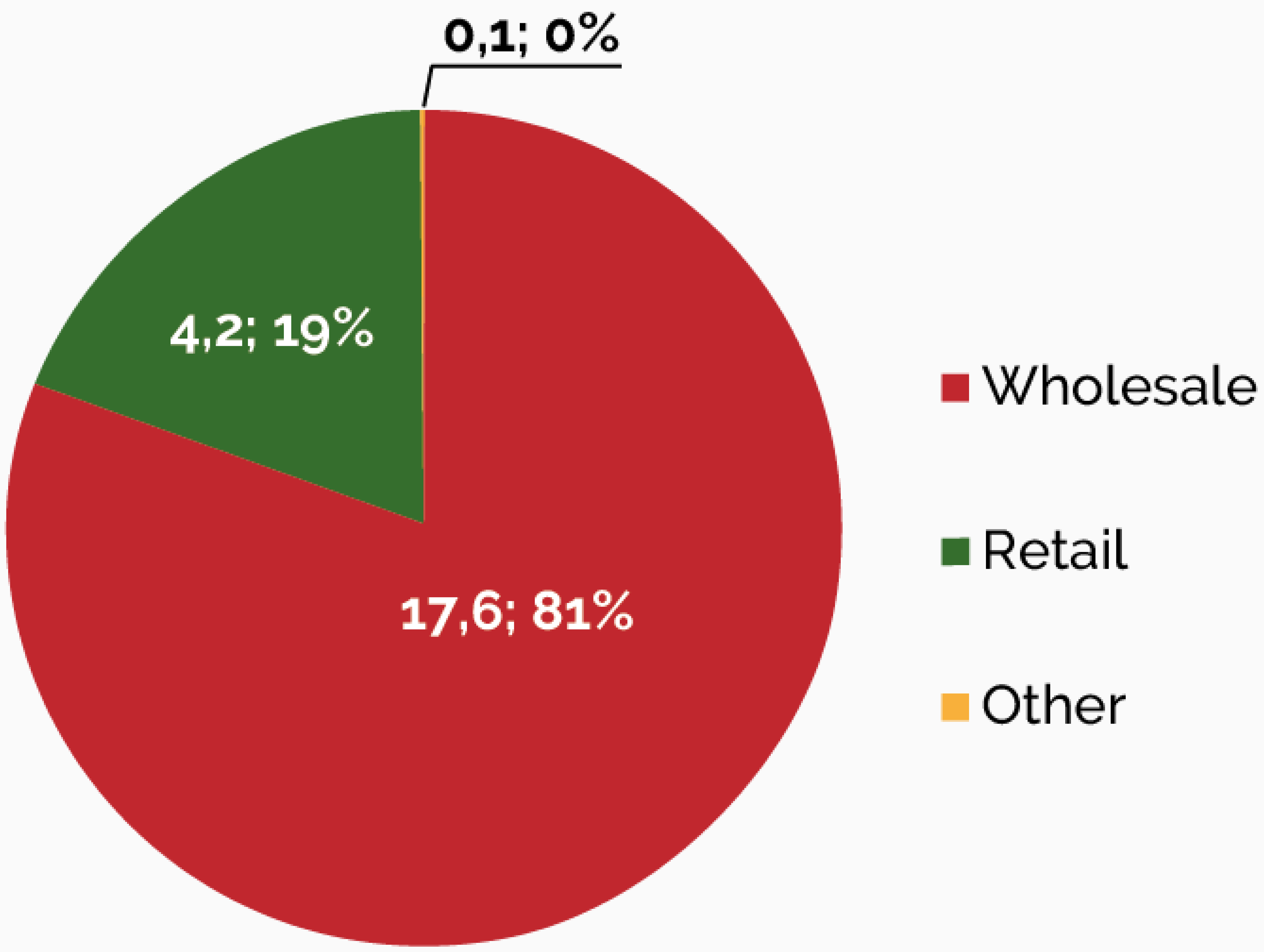
- Eurocash Distribution,
- Tobacco Distribution,
- Alcohol Distribution,
- Eurocash Cash & Carry,
- Eurocash Food Service,
- Pay Up.

In the retail segment, revenues from the sale of distribution formats will consist of:

- Delikatesy Centrum - wholesale to franchise stores including the sale of the Fresh Project to the Delikatesy Centrum chain,
- Delikatesy own Center - retail sales of Rogala, FHC-2, Madas and EKO Holding,
- Inmedio - retail sales of Inmedio newsagents.

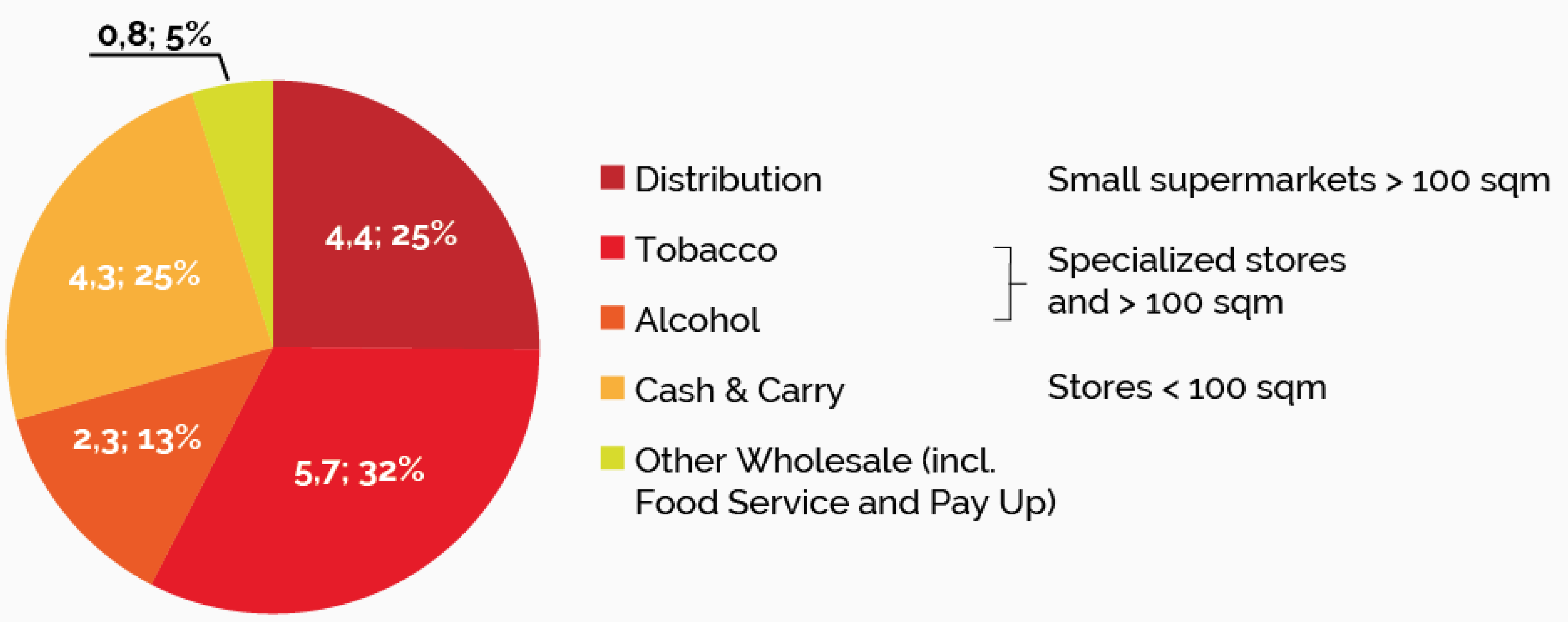
On the next page we present the distribution of sales revenues for 2017, split on two new business segments.

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



Source: Own study

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

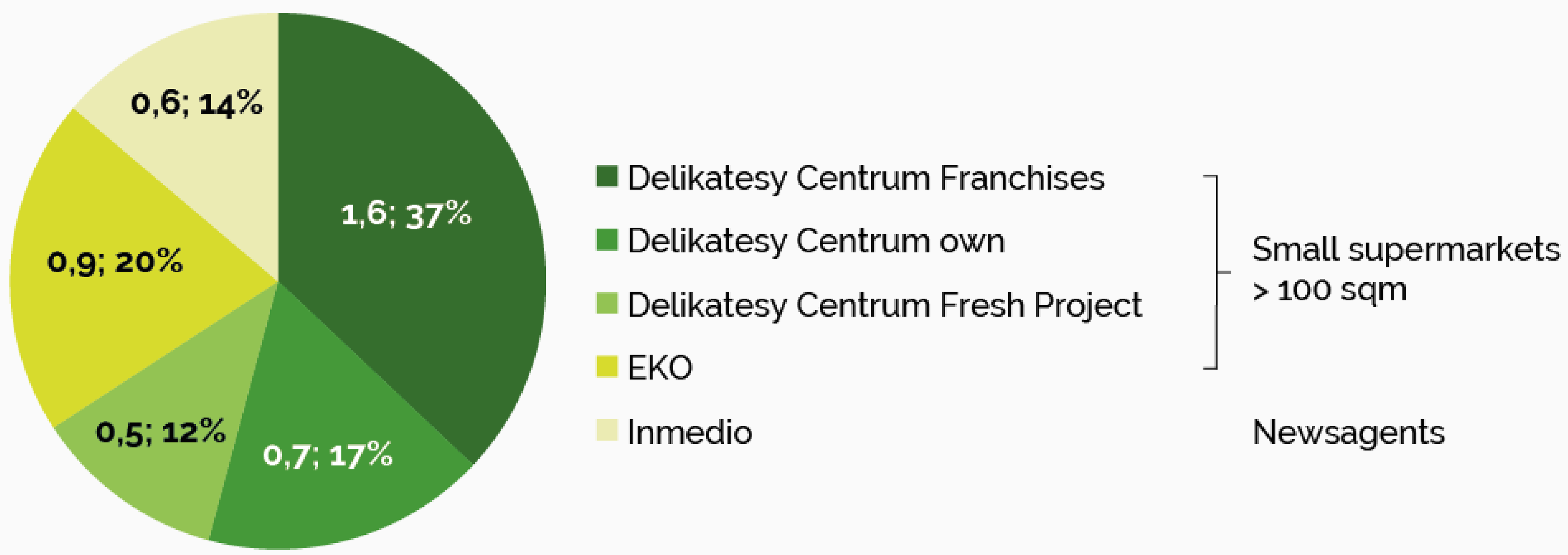


Source: Own study

The retail segment accounted for nearly 19% in the Eurocash Group, while the wholesale segment was responsible for 81% of Eurocash Group's sales revenues.

The largest share in the wholesale segment sales is generated by Tobacco – 32%, followed by Distribution and Cash & Carry – each 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. 49% 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 20% of sales. The retail segment also includes the sale of Inmedio newsagents, whose share in the segment's revenue is 14%.

Basic groceries (food and drinks – both alcoholic and non-alcoholic) represent key sales items for the Eurocash Group. In 2017, 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 2017. The share of other non-food products (including cosmetics, household chemicals, OTC drugs, and others) accounted for 2.6% in 2017.

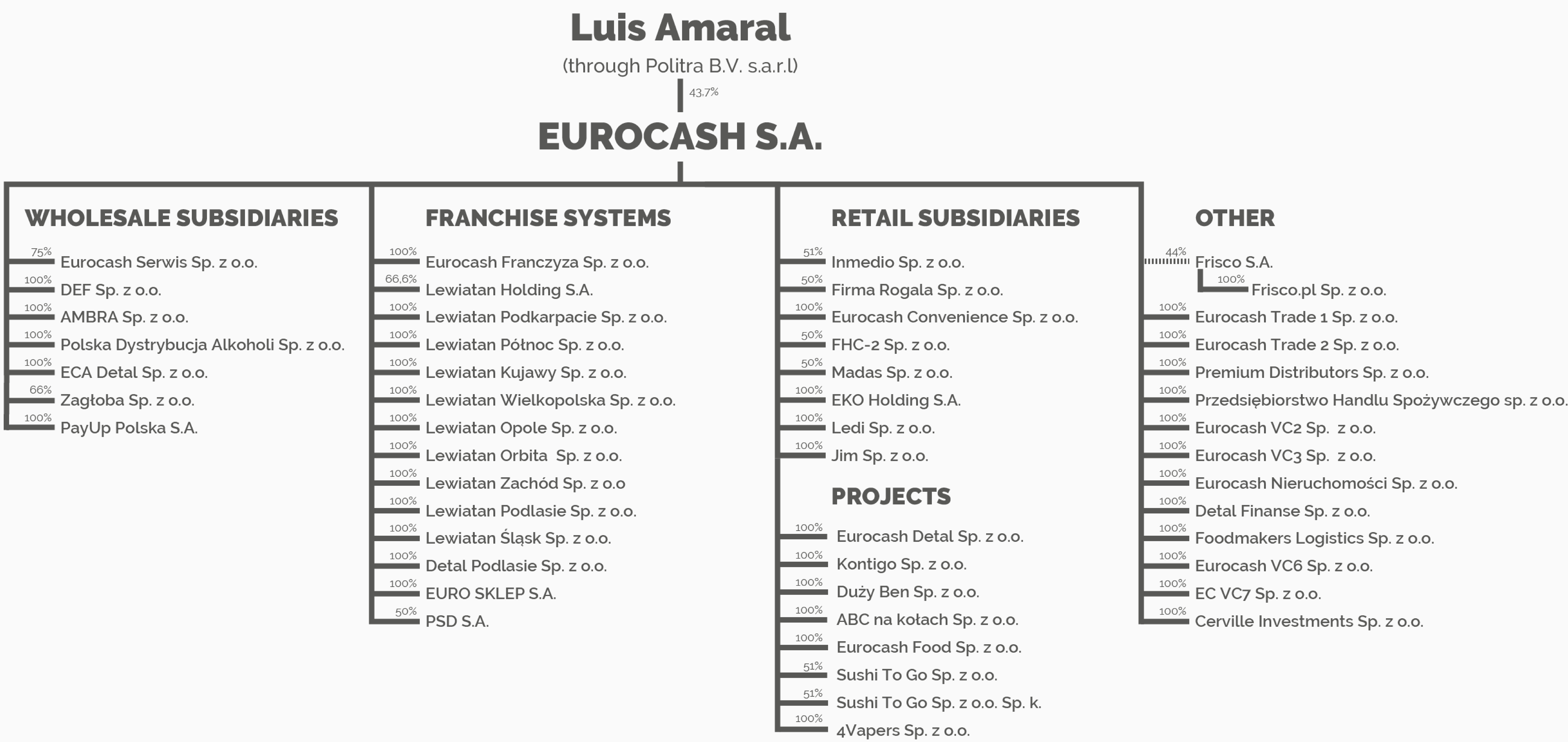
1.3 STRUCTURE OF THE EUROCASH CAPITAL GROUP

Luis Amaral is the main shareholder of Eurocash (directly and indirectly through Politra B.V. s.a.r.l.), with the shareholding of 43.72% as at 31.12.2017. Luis Amaral serves as President of the Management Board.

As at 22 November 2017, Azvalor Asset Management S.G.I.I.C. S.A. together with the direct and indirect subsidiaries, held a total of 7,498,451 shares constituting 5.39% of the share capital of EUROCASH S.A. These shares entitled to 7,498,451 votes constituting 5.39% 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 2017 is presented on the next page.

Chart 6. *The structure of the Eurocash Group and its affiliated companies as at December 31 2017*



On 4th January 2017 Eurocash acquired 100% of shares in EKO Holding S.A. with its registered office in Nowa Wieś Wrocławska („EKO").

On 15th September 2017, Eurocash concluded the Preliminary Agreement of purchasing 100% of shares in the share capital of Domelius Limited, as well as taking over control on its supermarket chain Mila. Concluding the final agreement is subject to the conditions precedent agreed in the Preliminary Agreement, in particular to obtain by Eurocash the consent of the President of the Office of Competition and Consumer Protection.

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 2017 is presented below.

Table 3: *The composition of the Management Board at the end of 2017*

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*
Jacek Owczarek	*Member of the Management Board – Financial Director*
Katarzyna Kopaczewska	*Member of the Management Board – HR Director*
Przemystąw 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 2017 was as presented in the table below.

Table 4: The composition of the Supervisory Board in 2017

João Borges de Assuncao	*Chairman of the Supervisory Board*
Eduardo Aguinaga de Moraes	*Member 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*

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

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

Thus, 3 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 which assumes the launch of 900 new stores within 5 years, will be the development of the network in the franchise model, supported by subsequent acquisitions of local chains and the construction of stores from 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.

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 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.

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.

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.

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.

1.8 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

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

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
  - EUROpress monthly, 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 CSR 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.

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, 2017 to December 31, 2017. The previous report was published on March 17, 2017.

The methodology of this year's report is based on the guidelines of the international standard Global Reporting Initiative (GRI), which allows to standardize information and select indicators suitable for Eurocash Group operations. GRI G4 ratios have been presented in the basic version.

The following important aspects have been identified within the GRI G4 standard:

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 • fuel 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	+	+

Table 6: *Important aspects of the Eurocash Group*

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.

There were no adjustments to any information contained in the previous report. The current report in relation to the previous one, because it was developed in the GRI standard, significantly expanded its content, among others by full company characteristics, reporting process or detailing the indicators.

If you have any questions regarding this report, please contact Jacek Zatoński, who is the CSR Specialist (csr@eurocash.pl).

Eurocash Group cooperates with a number of app. 79 thousands customer selling FMCG products and with 1 817 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.

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 2017 amounted to over 40%, are still very important.

3.1 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.

In 2017, the most important investment in the supply chain was the opening of a new Distribution Center in Sosnowiec. It is currently the most modern facility in the portfolio of Eurocash S.A.

Distribution of products on a national scale requires cooperation with many suppliers, their number for 2016 and 2017 is shown in the table below.

Table 7: *The number of suppliers in the Eurocash Group*

	2017	2016
Number of suppliers	1 817	1 806

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.

3.2 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 2017 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 cooperation with demanding network clients and acquiring new clients, the Sosnowiec, Plewiska and Błonie 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, 120 warehouse and load audits and 245 transport audits were carried out during deliveries to the clients in addition, 923 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 2017 a total of 1998 laboratory tests were carried out, sensory evaluation was carried out during 442 tastings, a total of 910 passports, labels and stickers were approved. In addition, part 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 133.

As regards the quality of fresh products, the monitoring of suppliers was also increased by introducing microbiological and physicochemical tests of meat delivered to Delikatesy Centrum. In addition, employees of Delikatesy Centrum stores and operational departments were trained in the safety and rotation of fresh products, i.e. fruit, vegetables, meat, fish.

3.3 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.

3.4 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.

3.5 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.

Skills Academy is the largest comprehensive educational and training program in Poland supporting Polish independent retail stores associated in franchise and partner networks of the Eurocash Group. As part of it, 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 three pillars:

- an interactive education platform,
- workshops and
- conferences

Education platform is available at www.akademiaeurocash.com.pl . The new version of the service gives the user unlimited online access to multiple e-learning trainings tailored for the needs of grocery stores. The multimedia trainings available on the platform tie together lectures with practical uses for the knowledge gained. In 2017, 13,000 people benefited from more than 50 multimedia trainings.

With the help of a personalized website, users have the opportunity to register also at workshops carried out throughout Poland and to download materials from the conference. Workshops is the practical part of the training program realized by the Eurocash Skill Academy. The participants take part in trainings, such as "Personnel management", "Grocery store employee" and "Losses in a grocery store". Monthly newsletters with interesting facts from the market and expert opinions serve as a supplement of that knowledge. In 2016 and 2017, the workshops were conducted in over 70 cities and about 11,000 people participated in them.

Substantive conferences are a meeting place for thousands of entrepreneurs from all of Poland during which the participants receive information necessary to run a store and current market knowledge. These meetings are an opportunity to broaden the knowledge on managing stores and to exchange experience. Taking place during the conference are also workshops, consultations and meetings with market experts from Poland and the world. In 2017, 5,500 people took part in the conference, while in 2016 there were 4,500 people.

The Eurocash Skills Academy operates under the patronage 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.

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.

3.6 POSTGRADUATE STUDIES "BUSINESS MANAGEMENT IN RETAIL TRADE"

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.

3.7 HEROES OF THE POLISH ENTREPRENEURSHIP - RETAIL TRADE PLEBISCITE

„Heroes of the Polish Entrepreneurship - Retail Trade Plebiscite" is the first event in the country promoting and rewarding the owners of independent grocery stores, organized and unorganized in the franchise. The competition promotes and rewards good business practices, not turnover.

The competition took into consideration relationships with clients, staff and the local community, so everyone - regardless of the size of the company s/he runs - had a chance to win. Entrepreneurs competed in five categories: versatility, locality, commitment, friendliness and family.

In the first stage, the entrepreneurs had to convince their clients and Internet users from all over Poland to vote for them. Then, among the stores with the largest number of votes, the plebiscite jury composed of prominent personalities from the world of science and business chose 15 winners.

The winners have received attractive financial rewards for the development of their business, and the entire industry can get to know good and worth doing business practices. Cash prizes were also waiting for the voters - clients of independent grocery stores.

130 entrepreneurs applied for the competition in 2017 and nearly half a million votes were given.

The Plebiscite is an attempt to change the perception of the small grocery industry as obsolete and unattractive. Meanwhile, in many points it follows the latest trends and also has many positive features that make it stand out for those larger commercial facilities.

3.8 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.

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.

3.9 COMPLAINTS AND RESOLVING DISPUTES

Direct clients have the ability to register complaints with the dedicated Customer Service Center which is responsible for transferring information to the appropriate department and finding solutions. At the same time, Eurocash Group makes the necessary effort, so the products being delivered are fresh and of highest quality.

4.1 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 31.12.2017, Eurocash Group employed 11 343 people in comparison to 11 966 people at the end of 2016. The employment structure in division by gender and age of the employees has been presented below*.

Table 8: *Employment structure by gender in Eurocash Group as of 31.12.2017*

Employment structure	2017	2016
Woman	40%	37%
Man	60%	63%

Table 9: *Employment structure by age in Eurocash Group as of 31.12.2017*

Employment structure	2017	2016
Below 31 years old	31,5%	34%
31 - 40 years old	38,5%	39%
Above 40 years old	30%	27%

Table 10: *Structure of newly employed in 2017 by gender*

Structure of employees	Woman	Man
Number of persons	1 010	1 385
% of employees	42%	58%

** The above data does not take into account employment structures in companies taken over at the turn of 2016 and 2017 i.e.. FHC-2 i Madas, Polska Dystrybucja Alkoholi and EKO Holding.*

4.2 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 2017, there was a slight increase in accidents by 7% compared to 2016. All accidents were light, most often involving forklift trucks: overruns or falling out of the cab.

Table 11: *Structure of newly employed in 2017 by age*

Structure of employees	Up to 30 years old	31 to 49 years old	50 years old and more
Number of persons	1 314	952	129
% of employees	55%	40%	5%

Table 12: *Employment rotation in 2017*

Rotation	2017	2016
Number of hired employees	3 729	4 032
Number of employees who ceased employment	3 892	4 191
Net result	-163	-159

Table 13: Number of accidents in Eurocash Group

Type of accident	2017	2016
At work	212	221
On the way to or from work	77	49
Total	289	270

A) PREVENTION PROGRAMS

In the Eurocash Group in 2017, 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 employees, 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.

B) 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. 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 2017, trainings were organized in 9 Eurocash Group offices throughout Poland.

4.3 EMPLOYEES HEALTH

In the area of health care for employees at the Eurocash Group in 2017, a number of projects were organized, the most important of which were indicated below:

- daily provision of fruits to employees;
- in 2017, a new office was opened in Warsaw, where on each floor there are ergonomic places for standing work and places of the so-called „Chillout". The building also has a free gym designed for employees;
- in the offices in Poznań and Komorniki, a series of pro-health actions was conducted, within which topics

• related to nutrition, sport, ergonomics and prophylaxis were discussed, we ensured, among others, massage, stationary bikes or body composition measurements;
• 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;
• in the office in Błonie, weekly fitness classes for employees and organized health days were launched;
• employees also receive support in sports competitions in which participation is financed, sportswear is provided. Employees also participate in the Running-Friendly Company program.

4.4 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 2017/2018 was granted to 144 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, 69 people are children of employees of various business units of the Eurocash Group, and 75 - children of persons employed in various networks cooperating with us. For five years of operation, the Foundation financed nearly 600 full-year scholarships, supporting 360 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 360 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.

4.5 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 permits 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.

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. In 2017, we have enriched our portfolio with such titles as „Outlook", „Recruitment" and „Advanced Excel". Last year, employees completed 5,088 e-learning courses.

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 2017, employees rented 255 books.

Table 14: *Average number of training hours of Eurocash Group employees in 2017*

Employees participating in training (excluding e-learning)	**Average number of hours per employee**	**Number of people covered by the training**	**% of all employees**
Woman	21,91	1 377	12%
Man	21,78	1 558	14%
Total	21,85	2 935	26%

Table 15: *Average number of training hours by grade in 2017*

Employees participating in training (excluding e-learning)	**Average number of hours per employee**	**Number of people covered by the training**	**% of all employees**
Specialist	20,44	1 463	12%
Manager	23,25	1 472	14%
Total	21,85	2 935	26%

4.6 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:

1. Setting targets – defining targets for the current calendar year

2. 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.

3. 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 2017 there was an increase in the number of persons participating in evaluation, 2193 60 2339.

Table 16: *Number of people which took part in 360 evaluation*

360 evaluation	Women	Men	Total
Number of people	1 137	1 202	2 339
% of employees	10%	10,6%	20,6%

Table 17: *Number of people which took part in 360 evaluation in division to positions*

360 evaluation	Specialists	Supervisors	Managers	Board and directors
Number of people	1 126	978	171	64
% covered by evaluation	48%	42%	7%	3%

4.7 CAREER PATHS

A) MANAGERIAL 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.

Each person joining the Management Trainee program, goes through an intensive 3 month training in different Eurocash 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 18: *Number of people who participated in Eurocash Group Managerial Programs*

Participating in managerial programs	2017	2016
Woman	4	7
Man	7	7
Total	11	14

B) 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.

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.

Table 19: *Number of people who participated in the Eurocash Summer Internship Program*

Participating in the summer internship program	2017	2016
Woman	16	16
Man	7	7
Total	23	23

C) 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 2017, in the Eurocash Group, 342 employees were promoted to higher positions.

4.8 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:

- Twitter and 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,
- EUROpress – internal publication presenting current events, employees of individual business units are also presented in each issue.
- Traditional channels - notice boards, posters
- Chat with representatives of the Board - allowing you to ask questions and exchange opinions
- Weekly newsletter of „Have a nice week" to Employees from the President of the Management Board, Luis Amaral

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 BY FACEBOOK

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) CHAT WITH MANAGEMENT BOARD

In 2017, chats were continued in the Eurocash Group via the chat system. The chat system allows employees to talk with the managers of the Eurocash Group, with whom personal contact is difficult on a daily basis due to distance and time.

Meetings with members of the Board are organized on a regular basis. It is an opportunity for every employee to ask the Member of the Management Board questions related to the company's functioning, its development, or more private, such as for the course of the working day or for the football team which he supports. You can ask questions during the chat or leave them in the chat box.

The number of employees logged into individual chat sessions varies from 300 to 360 people. An additional measure is not the quantity but the importance of the issues handled thanks to the chat, e.g. a special package of private medical care for people with long-term experience in the Eurocash Group.

D) WEEKLY NEWSLETTER "HAVE A NICE WEEK!"

In 2017, Eurocash Group launched another tool of communication with employees, it is a weekly newsletter „Have a nice week!". Newsletter is sent by the President of the Board - Luis Amaral. It is received by all employees with business e-mails, it automatically arrives at the mailboxes every Monday at 7:00 and is printed and posted in prominent places in the Group's locations.

The newsletter covers important topics for the company and employees. It usually consists of the main topic discussing aspects of Eurocash activities and short news from the life of the Group.

E) BOX OF IDEAS

In order to give employees the opportunity to influence the business reality, the Eurocash Group implemented the „Box of Ideas" program. It helps to improve internal business processes using the knowledge and ideas of people directly involved in them.

The program allows employees to share ideas for improving their work and the entire company. Employees are especially encouraged to submit proposals that improve customer service, bring additional revenue or provide savings, but the ingenuity of employees is not limited in any way.

A special section on the employee portal serves the handling of applications, where each employee can report their ideas, view, comment on and vote on other ideas regardless of their position.

The competition commissions select 3 best ideas within each unit of the Group, in addition the one with the highest number of votes of other employees is selected as the „Most Popular Idea of the Year".

In 2017, the 8th edition of the competition was organized - 142 ideas were submitted, they were commented over 70 times and almost 5,500 votes were cast. In 8 editions, more than 900 ideas were submitted. The best ideas are implemented. It turns out that sometimes seemingly minor changes bring very valuable effects.

4.9 MOTIVATION AND INTEGRATION

All employees - regardless of their working hours - have equal access to additional services. As the Eurocash Group in 2017, 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 2017 nearly 11 241 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 2017, 10 172 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 2017, 22 774 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 2017 over 290 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 2017, 57 drawings were organized, to which over 21 000 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. Eurocash also supports athletically gifted children, which require subsidies for sports camps, which are key to shape young talents. In 2017, 580 children of Eurocash Group employees took advantage of summer camps. An important element of social activity is granting non-refundable financial subsidies, Christmas vouchers for employees and packages for children.

- **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 2017, 2 800 people took advantage of these cards.

4.10 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 or send a text message to that same number, or send an e-mail to linia.zaufania@eurocash.pl or by traditional mail, by writing Trust Line on the envelope (address: Wiśniowa 11, 62-052 Komorniki).

Any noticed abuse can reported directly, without prior exhaustion of formal methods. Accepted are named and anonymous reports (in case named reports, each case will exhaustively investigated, in case of anonymous reports – the investigation will be decided by an Audit). 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.

4.11 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.

The Eurocash Group adheres to 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.

5.1 WASTE MANAGEMENT

From the waste stream generated by Eurocash, 1 884 tons of waste paper and 527 tons of film were selected in 2017. In total, 65% of waste produced was recycled, 34% of waste was bio-waste, which was subjected to composting and biogas processes, and only 1% of waste was subject to storage. The following data relate to waste generated as a result of the Group's main activities and does not include municipal waste generated by employees.

Table 20: *Waste generated in the Eurocash Group and how to handle it*

Type of waste	Material recovery [t]	Mechanical-biolgoical processing [t]	Storage [t]
Packaging made of paper and cardboard	5 149,16	0	0
Foods that are out-of-date or unhelpful	0	2 071,11	0
Plastic packaging	1 086,16	0	0
Other	159,63	0	0
Total	6 394,95	2 071,11	21,87
	75,3%	24,4%	0,3%

A) COOPERATION WITH FOOD BANKS

In 2017, 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 2017, Eurocash Group saved 33.5 t of groceries worth 318 thousand zlotys in this way.

5.2 ENERGY CONSUMPTION AND CO2 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 2017, energy consumption in the Eurocash Group amounted to approximately 1.190 million MJ. 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. 35715 t CO_2 was emitted. Combustion of fuel in transport (63%) and heating of buildings (37%) contribute to the emission.

A) ENERGY EFFICIENCY AUDIT

In 2017, an energy efficiency audit was carried out at the Eurocash Group. 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 2017, 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 2,5 to 4 years

In 2017, lighting was replaced in 5 distribution centers. At the same time, LED lighting was introduced to 70% 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.

5.3 TRANSPORT

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.

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 ac tions aiming to identify and eliminate the problem, which contributes to increased fuel consumptions, and in relation to that, increased exhaust emission into the environment.

A) 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.

B) 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.

In 2017, the Eurocash Group enriched its fleet with 400 Toyota Hybrid cars. These cars have created one of 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.

5.4 ECO-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 containers 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.

5.5 ECOLOGICAL EDUCATION

In 2017, Eurocash S.A. continued ecological education, on behalf of Interseroh Organizacja Odzysku Opakowań S.A., providing to three schools from the immediate vicinity of our Distribution Centers - Lublin, Sosnowiec, Luboń, further EKOPACKS. This time, educational materials were about aluminum. „Ekopacks" is a series of educational and fun boxes referring to a specific package. The project primarily refers to the idea of a closed circulation of raw material and is aimed at making the youngest generations aware of how the material can be used.

The Eurocash Group also tries to take care of people in its environment, organizes or joins various social campaigns and strives to provide responsible products and services below the most important activities of this type in 2017.

6.1 COOPERATION WITH LARGE FAMILY ASSOCIATION 3+

Eurocash Group and the 3+ Large Family Association (LFA), the biggest organization in Poland bringing together large families, signed in 2016 a 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.

6.2 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 2017/2018 the Group is represented by 8 Ambassadors - Students (4 women and 4 men). In Warsaw, two Ambassadors at the Warsaw School of Economics and one at the University of Warsaw. In Poznań, one Ambassador at the Poznan University of Technology, Adam Mickiewicz University and the University of Economics. 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.

6.3 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 2017, 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.

6.4 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 and Warsaw, as well as (for the first time in 2017) with the Single Mother House in 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 2017, 97 children and mothers were helped. 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.

6.5 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.

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.

6.6 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 2017.

6.7 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.

The offer includes many care and relaxation products, such as: butter, creams, peels, mousses, gels, masks, deodorants, and even bath salts and balls, and massage candles. In addition, each series has a wide range of scents to choose from.

B) ABC ON WHEELS

In rural areas, which are inhabited by a large group of seniors, access to basic goods and services is very limited. That's why Eurocash decided on a new distribution method - abc on wheels.

Abc on wheels is a network of general-convenience, convenient car-stores that reach places where there are no service or commercial points. Stores provide fresh food products to local residents, who are mostly elderly, living alone, with low incomes. Vehicles are specially adapted to transport food, so they are able to offer high quality products at affordable prices, which was previously unavailable to this group of recipients. Stores visit their customers regularly, several times a week, regardless of the weather or season, which is why they are a reliable source of current supplies for them. In addition to food products, the abc offer on wheels also includes basic household items, there is also the option of paying bills or topping up the phone.

The network engages in the life of the local community by organizing numerous actions. One of such ventures was a series of free summer outdoor cinemas, where local residents could watch the film displayed on the side of the vehicle-store. Other activities we undertake are, for example, Christmas packages for children or raising the awareness of senior clients about their consumer rights.

6.8 PROGRAMS FOR ROAD SAFETY

The Delikatesy Centrum and Gama franchise chains run their own programs aimed at increasing the safety on the road, especially for children.

Delikatesy Centrum together with the police have so far organized two actions: „SAFE road!" And „Safe return to school". They included posters promoting safety on the road and equipping children with reflective elements.

The Gama network also organized the campaign „Be safe on the road" with the police. The action consisted in organizing meetings in kindergartens and other facilities in order to train children on the principles of safe movement on the road and safety related to the risks of meeting a stranger. Children were visited by police officers along with a person dressed as a mascot of the Gama network - Miś Gamuś.

6.9 PROMOTION OF NON-FOOD WASTE

In addition to its own activity reducing the amount of food waste produced, the Group is also trying to promote this idea among the public. To this end, Eurocash Gastronomia supported the organization of World Food Day entitled „What is happening with food that we will not eat?", Which took place on 15-16 October 2017 at the Children's Museum at the State Ethnographic Museum in Warsaw.

The aim of the event was to make the public aware of the global problem of food waste and to provide knowledge about ways to prevent throwing food into the bin. The direct addressees of the project were pre-school, primary school children and their guardians who visited the Children's Museum in Warsaw.

During the event, educational materials were handed out, culinary and educational workshops were held, film screenings were staged, a story about non-food waste was staged and a special exhibition was presented.

Table 21: *List of GRI indicators*

GRI indicator		Reference in the report
STRATEGY AND ANALYSIS		
G4-1	A statement by the top management about the importance of sustainable development for the organization and its strategy	**81**
ORGANIZATION PROFIL		
G4-3	The name of the organization	**82**
G4-4	Main brands, products and/or services	**82-83**
G4-5	Location of the organization's headquarters	**84**
G4-6	The number of countries in which the company operates	**84**
G4-7	Form of ownership and legal structure of the organization	**89**
G4-8	Supported markets with geographical coverage, sectors served, characteristics of customers/consumers and beneficiaries	**82-87**
G4-9	The scale of the organization's activity	**85-87**
G4-10	Total number of employees by type of employment, type of employment contract and region and gender	**104-105**
G4-11	The percentage of employees covered by collective agreements	**not applicable**
G4-12	Supply chain/value characteristics	**98**

G4-13	Significant changes in the reporting period regarding the size, structure, ownership form or supply chain Not applicable	**96**
G4-14	Explanation of whether and how the organization applies the precautionary principle	**118**
G4-15	External, accepted or supported by the organization economic, environmental and social declarations, principles and other initiatives	**93**
G4-16	Membership in associations (such as industry associations) and / or in national / international judicial organizations	**93**
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	**82-88**
G4-18	The process of defining report content and implementing reporting principles to define the content of the Report	**95-96**
G4-19	Significant aspects identified in the process of defining the content of the Report	**95**
G4-20	Scope and significance for each of the identified aspects within the organization	**95**
G4-21	Scope and significance for each of the identified aspects outside the organization	**95**
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	**96**
STAKEHOLDER ENGAGEMENT		
G4-24	List of stakeholder groups engaged by the organization	**94**
G4-25	Basis for identification and selection of stakeholders	**94**
G4-26	An approach to engaging stakeholders, including the frequency of involvement by type and group of stakeholders	**94**
G4-27	Key issues and problems raised by stakeholders and the response from the organization, including by reporting them	**94**
REPORT PROFILE		
G4-28	Reporting period	**95**
G4-29	Date of publication of the last Report (if published)	**95**
G4-30	Reporting cycle (one-year, two-year, etc.)	**95**
G4-31	Contact person	**96**
G4-32	Table indicating the place where the indicators are placed in the Report	**127-132**
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	**89-90**

ETHICS AND INTEGRITY		
G4-56	Values, principles, standards, principles of conduct of the organization, collected in codes of conduct and ethical codes	**92-93, 116-117**
ECONOMIC		
DMA	Management approach - Supporting independent grocery stores	**82**
G4-EC1	Direct economic value generated and distributed	**84**
G4-EC8	Significant indirect economic impacts, including vthe extent of impacts	**82, 84-85**
ENVIRONMENTAL		
DMA	Management approach - Environment	**118**
DMA	Management approach - Transport	**120-121**
G4-EN3	Energy consumption within the organization	**119**
G4-EN16	Direct greenhouse gas (GHG) emissions (Scope 1)	**119**
G4-EN23	Total weight of waste by type and disposal method	**119**
LABOUR PRACTICES AND DECENT WORK		
DMA	Management approach - Occupational Health and Safety	**105-106**
DMA	Management approach - Training and education	**107-108**
DMA	Management approach - Diversity and equal opportunity	**116**

DMA	Management approach - Labor practices grievance mechanisms	**115-116**
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	**104-105**
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	**114-115**
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	**105-106**
G4-LA9	Average hours of training per year per employee by gender, and by employee category	**108**
G4-LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	**110-112**
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	**110**
HUMAN RIGHTS		
DMA	Management approach - Anti-corruption	**115-117**
PRODUCT RESPONSIBILITY		
DMA	Management approach - Customer health and safety	**98-99**

PART C

SELECTED CONSOLIDATED FINANCIAL DATA

FOR THE PERIOD FROM 1 JANUARY 2017 TO 31 DECEMBER 2017

KOMORNIKI, 22 March, 2018

SELECTED CONSOLIDATED FINANCIAL DATA

	for the period from 01.01.2017 to 31.12.2017 PLN	for the period from 01.01.2016 to 31.12.2016 PLN	for the period from 01.01.2017 to 31.12.2017 EUR	for the period from 01.01.2016 to 31.12.2016 EUR
Sales	23 271 078 476	21 219 899 769	5 465 773 787	4 864 160 406
Operating profit (loss)	62 994 248	274 282 219	14 795 718	62 872 715
Profit (loss) before income tax	20 312 674	235 918 759	4 770 921	54 078 799
Profit (loss) for the on continued operations	(29 559 705)	190 016 746	(6 942 809)	43 556 847
Profit (loss) for the period	(29 559 705)	190 016 746	(6 942 809)	43 556 847
Net cash from operating activities	493 585 231	324 023 567	115 930 391	74 274 743
Net cash used in investing activities	(335 705 804)	(269 940 673)	(78 848 601)	(61 877 518)
Net cash used in financing activities	(117 150 181)	21 591 462	(27 515 544)	4 949 332
Net change in cash and cash equivalents	40 729 246	75 674 356	9 566 245	17 346 557
Weighted average number of shares	139 158 564	139 023 791	139 158 564	139 023 791
Weighted average diluted number of shares	139 158 564	139 120 988	139 158 564	139 120 988
EPS (in PLN / EUR)	(0,24)	1,29	(0,06)	0,30
Diluted EPS (in PLN / EUR)	(0,24)	1,29	(0,06)	0,30
Average PLN / EUR rate*			4,2576	4,3625

	as at 31.12.2017 PLN	as at 31.12.2016 PLN	as at 31.12.2017 EUR	as at 31.12.2016 EUR
Assets	5 979 922 099	5 494 995 634	1 433 724 640	1 242 087 621
Non-current liabilities	96 108 526	266 177 397	23 042 635	60 166 681
Current liabilities	4 853 808 173	4 073 714 582	1 163 731 610	920 821 560
Equity	1 030 005 400	1 155 103 655	246 950 394	261 099 380
Share capital	139 163 286	139 096 361	33 365 290	31 441 311
Number of shares	139 163 286	139 096 361	139 163 286	139 096 361
Diluted number of shares	142 069 536	139 530 636	142 069 536	139 530 636
Book value per share (in PLN / EUR)	6,94	7,81	1,66	1,76
Diluted book value per share (in PLN / EUR)	6,80	7,78	1,63	1,76
Declared or paid dividend (in PLN / EUR)	111 277 151	146 394 794	26 679 410	33 091 048
Declared or paid dividend per share (in PLN / EUR)	0,80	1,05	0,19	0,24
PLN / EUR rate at the end of the period**			4,1709	4,4240

* Profit and loss items and cash flow items calculated on basis at a weighted average rate announced by the National Bank of Poland for 2017,

** 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 2016 year was paid till 6 June 2017 for shareholders of Parent Company as at 16 May 2017.

PART D

AUDITOR'S OPINION & REPORT

KOMORNIKI, 22 March, 2018

INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

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

The audit report on the annual consolidated financial statements

We have audited the accompanying annual financial statements for the year ended 31 December 2017 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 2017 to 31 December 2017, the consolidated statement of financial position as at 31 December 2017, the consolidated statement of cash flows and the consolidated statement of changes in equity for the period from 1 January 2017 to 31 December 2017 and the summary of significant accounting policies and other explanatory notes ('the accompanying consolidated financial statements').

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

The Company's Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of European Commission decrees and other applicable laws, as well as the Company's Statute. The Company's Management is also responsible for such internal control as determined is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In accordance with the Accounting Act of 29 September 1994 (the 'Accounting Act'), the Company's Management and the members of the Company's Supervisory Board are required to ensure that the accompanying consolidated financial statements meet the requirements of the Accounting Act.

Auditor's responsibility

Our objective was to express an opinion on whether the accompanying consolidated financial statements give a true and fair view[1] of the financial position and results of the operations of the Group in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of European Commission regulations and adopted accounting policies.

1 Translation of the following expression in Polish is 'rzetelny i jasny obraz'.

We conducted our audit of the accompanying consolidated financial statements in accordance with:

- Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight ('Act on Statutory Auditors'),
- National Auditing Standards in the wording of the International Auditing Standards adopted by the resolution no. 2783/52/2015 of the National Council of Statutory Auditors of 10 February 2015 with subsequent amendments,
- 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 ("Regulation 537/2014").

Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

The purpose of the audit is to obtain reasonable assurance as to whether the consolidated financial statements as a whole were prepared based on properly maintained accounting records and are free from material misstatement due to fraud or error, and to issue an independent auditor's report containing our opinion. Reasonable assurance is a high level of assurance, but it is not guarantee that an audit conducted in accordance with the above mentioned standards will always detect material misstatements. Misstatements may arise as a result of fraud or error and are considered material if it can reasonably be expected that individually or in aggregate, they could influence economic decisions of the users taken on the basis of these consolidated financial statements. The risk of not detecting a material misstatement due to fraud is higher than the risk of not recognizing a material misstatement due to an error, as fraud may involve collusion, falsification, deliberate omissions, misleading or circumventing internal control and may affect every area of law and regulation, not just this directly affecting the consolidated financial statements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the consolidated financial statements 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated financial statements.

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

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, including those on other information or regulatory requirements, are made with the contemplation of the qualitative and quantitative materiality levels established in accordance with auditing standards and auditor's professional judgement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The opinion is consistent with the additional report to the audit committee issued on the date of this report.

Independence

While conducting our audit, the key certified auditor and the audit firm remained independent of the entities comprising the Group in accordance with the regulations of Act on Statutory Auditors, Regulation 537/2014 and principles of professional ethics adopted by resolutions of the National Council of Statutory Auditors.

Based on our best knowledge and belief, we declare that we have not provided non-audit services, that are prohibited based on article 136 of the Act on Statutory Auditors and article 5, point 1 of Regulation 537/2014, to the Company.

Appointment of the audit firm

We were appointed to audit the consolidated financial statements based on the Company's Supervisory Board resolution dated 25 April 2017. We have been auditing the consolidated financial statements of the Company for the first time since the beginning of the financial year ended 31 December 2017.

Most significant assessed risks

In the course of our audit we have identified the below described most significant assessed risks of material misstatement (key audit matters), including due to fraud and we designed appropriate audit procedures in response to those risks. Where we considered to be relevant in order to understand the nature of the identified risk and audit procedures performed we have also included key observations arising with respect to those risks.

These matters were addressed in the context of our audit of the accompanying consolidated financial statements as a whole, and in forming our opinion thereon. Therefore we do not provide a separate opinion on these matters.

complex and requires significant Management judgement in determining the corporate income tax liabilities 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 disclosures about the above described matter are included in point 3 of the general information "Loss incurred by the Company as a result of fraudulent activities of external parties", point 2.31 of the accounting principles "Uncertainties related to tax settlements" and note 23 "Income tax" to the consolidated financial statements.	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, especially by obtaining written responses of the external tax advisors on the material tax exposures addressed to the Company. We assessed the disclosures related to the tax settlements, as well as Group's uncertain tax positions.
Goodwill and trademarks impairment testing	

At 31 December 2017, the carrying value of goodwill and trademarks with indefinite useful life amounted to PLN 1 445 million and constituted 24% of the Group's total assets as of that date. The Group performed an impairment test at 31 December 2017 of these assets based on the value in use estimation for identified relevant cash generating units to which goodwill and trademarks were allocated. This annual impairment test for goodwill and trademarks with indefinite useful live was significant to our audit, is complex and requires significant management judgement and many assumptions, including those related to the Group's strategy, forecasted revenues, costs and cash flows, future growth rates and discount rates, which are affected by expected future market and economic conditions. 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 6 "Impairment tests" to the consolidated financial statements.	Our audit procedures included the understanding and evaluation of the impairment testing process, such as cash generating units identification, 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 among others: - 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 with support of our internal valuation specialists, - testing the sensitivity in the available headroom of the model considering what change in assumptions could cause the carrying amount of CGU to which goodwill or trademark is assigned, to exceed its recoverable amount. We have assessed the disclosures related to goodwill and trademarks and assumptions used in the impairment test and the sensitivity of the results of the test.

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Accounting for acquisition of EKO Holding S.A. Group	
As at 4 January 2017, the Eurocash S.A. acquired control of EKO Holding S.A. Group for a total consideration PLN 127.6 million. We identified the matter as key audit matter due to the financial significance of 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. Goodwill computed 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 144.6 million. Eurocash Management judgments and estimates involved in accounting for the acquisition relate to the identification and the determination of the fair value of the acquired assets, particularly in relation to assets not previously recognized by EKO Holding S.A. Group 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. The Group's disclosure of the acquisition of EKO Holding S.A. Group is set out in note 1 "Purchase of shares in subsidiaries" to the consolidated financial statements.	Our procedures included gaining an understanding of the transaction and its rationale through discussions with 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: - We assessed the valuation and accounting for the consideration payable and traced payments to bank statements. - We discussed with the management 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. - For the trademarks (i) we assessed the management judgements including used assumptions and future management's plans regarding the acquired EKO Holding brand and (ii) we performed the evaluation of the impairment testing process including an assessment of assumptions and methodology used by the Group in estimations and verification of arithmetic accuracy of the underlying calculations. - For acquired tangible assets we assessed the appropriateness of the useful lives assigned to the identified intangible assets, 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. - We assessed the Management's allocation of the goodwill to an appropriate cash generating units not higher than segment. - We assessed adequacy of the disclosures with the requirements set forth in IFRS 3 Business Combinations and concluded them adequate.

Initial audit of consolidated financial statements	
The consolidated financial statements of Eurocash S.A. Capital Group for the year ended 31 December 2017 was the first financial statements being a subject to our audit. During the audit we have performed number of additional procedures to understand and gain the knowledge of the (i) Company's and Group's business profile and accompanying processes, (ii) specific risks concerning the activity of the Company and Group, (iii) internal controls implemented by the Company and subsidiaries within Eurocash S.A. Capital Group and implemented policies which impact on the financial reporting of the Company and the Group. These procedures enabled us to assess the audit risk, identify the risk of material misstatements including the inherent risk of the audit and the control risk, determine the materiality levels and audit scope. Moreover, the initial audit additional procedures purpose was to determine whether the opening balance contained misstatements which significantly impacted on the consolidated financial statements for current year and whether the accounting policies implemented for opening balances were applied on the continuous basis in preparation of the financial statements for current year and whether the changes, which were applied, were appropriately booked and relevantly presented in accordance with applicable reporting framework. The disclosures in relations to the opening balance adjustments were presented in note 2 "Adjustments to the comparable data" to the consolidated financial statements.	Our procedures included among others: kick – off meeting with key personnel responsible for financial reporting of the Capital Group and also internal meetings with audit team members including the teams responsible for subsidiary and also meetings with specialists dedicated to be involved in the audit procedures, - review of the internal controls implemented in the Group and testing of the selected controls in relations to particular processes, - understanding of Group accounting policies and significant areas of the financial statements which are subject to professional judgement and include estimates, - communication with key certified auditor acting on behalf of the predecessor auditor including discussion on the key audit issues and review of the audit work papers relating to prior year, - assessment of key audit issues from prior year and its impact on the financial statements for the current year, - carrying out the analysis of the correctness of the recognition of control over subsidiaries in accordance with the IFRS 10, in which Eurocash SA does not hold 100% of votes at the General Meeting or Shareholders Meeting. The results of our procedures and the revised audit strategy were communicated to the Management Board of the Company and to the Audit Committee.

Opinion

In our opinion, accompanying consolidated financial statements:

- give a true and fair view of the financial position of the Group as at 31 December 2017 and its financial performance for the year from 1 January 2017 to 31 December 2017 in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of regulations of the European Commission and other applicable laws and the adopted accounting policies,
- are in respect of the form and content in accordance with legal regulations governing the Company and the Company's Statute.

Other matters

The consolidated financial statements for the prior financial year ended 31 December 2016 were subject to an audit by a key certified auditor acting on behalf of another authorised audit firm, who issued an unqualified opinion on these consolidated financial statements, dated 15 March 2017.

Report on other legal and regulatory requirements

Opinion on the Directors' Report

Our opinion on the consolidated financial statements does not include the Directors' Report.

The Company's Management is responsible for preparation of the Directors' Report in accordance with the Accounting Act and other applicable laws. In addition, the Company's Management and members of the Company's Supervisory Board are required to ensure that the Directors' Report meets the requirements of the Accounting Act.

Our responsibility in accordance with the Act on Statutory Auditors was to issue an opinion on whether the Director's Report was prepared in accordance with relevant laws and that it is consistent with the information contained in the accompanying consolidated financial statements.

Our responsibility was also to make a statement, on whether based on our knowledge about the Company and its environment obtained during the audit of the financial statements we have identified in the Director's Report any material misstatements and to indicate the nature of each of material misstatement.

In our opinion the Directors' Report was prepared in accordance with the relevant regulations and reconciles with the information derived from the accompanying financial statements. Moreover, based on our knowledge of the Company and its environment obtained during the audit of the financial statements, we have not identified material misstatements in the Directors' Report.

Opinion on the corporate governance application representation

The Company's Management and members of the Company's Supervisory Board are responsible for preparation of the representation on application of corporate governance in accordance with the applicable laws.

In connection with the conducted audit of the consolidated financial statements, our responsibility in accordance with the Act on Statutory Auditors was to issue an opinion on whether the issuer, obliged to present a representation on application of corporate governance, constituting a separate part of the Director's Report, included in the representation information required by applicable laws and whether the related information is in accordance with applicable regulations and with the information included in the accompanying consolidated financial statements.

In our opinion, in the representation on application of corporate governance, the Company has included information stipulated in paragraph 91, section 5, point 4, letter a, b, g, j, k and l of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and conditions of deeming information required by the regulations of a non-member country equal ('Regulation'). Information stipulated in paragraph 91, section 5, point 4 letter c-f, h and i of the Regulation included in the representation on application of corporate governance is in accordance with applicable laws and information included in the accompanying consolidated financial statements.

Information on preparation of the statement on non-financial information

In accordance with the requirements of the Act on Statutory Auditors, we inform that the Company has published information on the preparation of a separate report on non-financial information, referred to in art. 49b par. 9 of the Accounting Act and that the Company has prepared such a separate report.

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

Warsaw, 22 March 2018

Key Certified Auditor

Robert Klimacki
certified auditor No. 90055

on behalf of
Ernst & Young Audyt Polska spółka
z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1, 00-124 Warsaw
Reg. No 130

PART E

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD FROM 1 JANUARY 2017 TO 31 DECEMBER 2017

KOMORNIKI, 22 March, 2018

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 2017 and ended 31 December 2017 and comparative period is the period from 1 January 2016 to 31 December 2016.
Consolidated statement of financial position has been prepared as at 31 December 2017, and the comparative figures are presented as at 31 December 2016.

2. BOARD OF THE PARENT ENTITY

2.1. MANAGEMENT BOARD OF THE PARENT ENTITY

As at 31 December 2017 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 2017 the Parent Entity's Supervisory Board consisted of the following members:

João Borges de Assunção – President of the Supervisory Board,
Eduardo Aguinaga de Moraes – Member 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.

2.3. CHANGES IN THE MANAGEMENT AND SUPERVISORY BOARD

On 13 January 2017, Mr. David Boner resigned from his position of Member of the Management Board, effective as at 13.01.2017.

On 22 February 2017, Mr. Przemysław Ciaś was appointed Member of the Management Board of Eurocash S.A.

3. THE DAMAGE SUFFERED BY THE COMPANY AS A RESULT OF THE ACTIVITIES OF EXTERNAL ENTITIES PARTICIPATING IN THE VAT FRAUD MECHANISM **

In the period from March to August 2017 an extensive and detailed audit of VAT settlements by Eurocash S.A was carried out. The audit covered settlements made in the years 2013 – 2017. It showed that Eurocash S.A. was used in a mechanism of VAT fraud by groups of outside entities in transactions concerning intra-Community delivery of goods. The audit consisted, inter alia, in a review of documentation, including e-mail correspondence, as well as verification of business partners of Eurocash S.A. who participated in the above-mentioned transactions.
The finding of the audit showed that Eurocash S.A. may be obligated to settle a VAT liability in favor of the State Treasury. In accordance with the estimate of the Management Board, the amount of the potential VAT liability may be 121 450 511 PLN. This amount was corrected downwards by the surplus of CIT which arose for the Company in connection with the disclosure of revenue from a sale in the part which corresponds to 23% VAT, and, thus, does not constitute an actual gain (revenue) of the Company. As a result, the Company made a payment to bank account of the First Wielkopolski Tax Office in Poznań the amount of 95 746 902 PLN in respect of security of payment of the possible VAT liability.
The Management Board believes that the final amount of the VAT liability may differ from the amount paid by the Company in respect of security of payment of the possible VAT liability, once the tax authority has carried out a detailed analysis of the documentation gathered by the Company, as well as of the procedures used by Company and the explanations of the Company. The Company believes that it acted in good faith when carrying out the above-mentioned transactions, and that it regularly tightened up procedures aimed at countering such irregularities. Thus, the Company is proving before the Tax Office that, in the course of ongoing tax audit, it has been harmed by fraud, made by third parties without the Company's knowledge. Thus, the final amount of the VAT liability may be lower

than the amount referred to above, while the Company may be due a refund of some of the funds paid.

The Company Management Board emphasizes that payment of the liability will not have any impact on the Company's dividend policy, carried out also in previous years.

Negative impact on Net Profit for 2017 amounts to 114 400 861,47 PLN (0.82 PLN per share). Consolidated Net Debt of Eurocash will be negatively affected by 95 746 902 PLN (0.69 PLN per share).

The effect of this event was reflected in the financial result of the Company and of the Group in the mid-year and annual financial statements.

Eurocash Group continues to audit the VAT settlements by companies of the Eurocash Group as there exists a suspicion that potential irregularities could appear also in other companies of the Group. 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.

*** Income statement*

CONSOLIDATED INCOME STATEMENT FOR THE PERIOD FROM 01.01 TO 31.12.2017

	Note	for the period from 01.01.2017 to 31.12.2017	for the period from 01.01.2016 to 31.12.2016 restated *
Sales		**23 271 078 476**	**21 219 899 769**
Sales of goods	25	21 842 339 034	19 872 981 523
Sales of services	25	1 423 836 472	1 341 438 313
Sales of materials	25	4 902 971	5 479 933
Costs of sales		**(20 830 101 294)**	**(19 107 780 364)**
Costs of goods sold		(20 636 236 321)	(18 954 024 544)
Costs of services sold	26	(189 683 906)	(148 897 359)
Costs of materials sold		(4 181 067)	(4 858 461)
Gross profit (loss)		**2 440 977 182**	**2 112 119 406**
Selling expenses	26	(1 922 221 341)	(1 532 424 939)
General and administrative expenses	26	(372 521 997)	(322 192 712)
Profit (loss) on sales		**146 233 843**	**257 501 755**
Other operating income	27	75 180 146	57 334 214
Other operating expenses**	27	(158 419 741)	(40 553 749)
Operating profit (loss)		**62 994 248**	**274 282 219**
Financial income	28	29 035 301	24 205 984
Financial costs	28	(66 969 577)	(57 849 438)
Share in profits (losses) of equity accounted investees		(4 747 298)	(4 720 007)
Profit (loss) before tax		**20 312 674**	**235 918 759**
Income tax expense	23	(49 872 379)	(45 902 013)
Profit (loss) for the period		**(29 559 705)**	**190 016 746**
Attributable to:			
Owners of the Company		(33 311 574)	179 221 629
Non-controlling interests		3 751 869	10 795 118

EARNINGS PER SHARE

	Note	PLN / share	PLN / share
Profit (loss) attributable to Owners of the Company		(33 311 574)	179 221 629
Weighted average number of shares	29	139 158 564	139 023 791
Weighted average diluted number of shares	29	139 158 564	139 120 988
Earnings per share			
- basic		(0,24)	1,29
- diluted		(0,24)	1,29

* Note 2
** Pt. 3

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 01.01 TO 31.12.2017

	for the period from 01.01.2017 to 31.12.2017	for the period from 01.01.2016 to 31.12.2016
Profit (loss) for the period	**(29 559 705)**	**190 016 746**
Other comprehensive income for the period	(173 072)	4 333 575
Items that may be subsequently reclassified to profit or loss:		
- The result on hedge accounting with the tax effect:	(173 072)	4 333 575
Total comprehensive income for the period	**(29 732 777)**	**194 350 322**
Total Income		
Owners of the Company	(33 484 646)	183 555 204
Non-controlling interests	3 751 869	10 795 118
Total comprehensive income for the period	**(29 732 777)**	**194 350 322**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31.12.2017

Assets	Note	as at 31.12.2017	as at 31.12.2016 restated *
Non-current assets (long-term)		**2 526 965 574**	**2 287 968 922**
Goodwill	4	1 401 336 787	1 254 108 025
Intangible assets	4	347 086 180	358 321 106
Property, plant and equipment	5	678 989 707	587 394 410
Investment property	7	972 799	988 495
Investments in equity accounted investees	8	32 415 896	34 951 736
Other long-term investments	9	30 784 656	531 570
Long-term receivables	10	7 156 243	3 251 647
Deferred tax assets	24	26 316 764	47 084 072
Other long-term prepayments	11	1 906 541	1 337 861
Current assets (short-term)		**3 452 956 525**	**3 207 026 712**
Inventories	12	1 320 254 214	1 088 908 423
Trade receivables	13	1 682 841 291	1 748 183 885
Current tax receivables	13	11 584 927	16 558 439
Other short-term receivables	13	143 072 942	139 874 535
Other short-term financial assets	14	50 434 740	5 713 175
Short-term prepayments	15	42 168 063	45 917 150
Cash and cash equivalents	16	202 600 349	161 871 104
Total assets		**5 979 922 099**	**5 494 995 634**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31.12.2017

Equity and liabilities		as at 31.12.2017	as at 31.12.2016 restated *
Equity		**1 030 005 400**	**1 155 103 655**
Equity attributable to Owners of the Company		**966 333 484**	**1 085 650 382**
Share capital	17	139 163 286	139 096 361
Reserve capital		1 460 760 315	1 352 632 597
Loss on valuation of hedging transactions		(6 483 777)	(6 310 705)
Option for purchase/selling the shares		(54 712 448)	(69 189 100)
Retained earnings		(572 393 893)	(330 578 771)
Accumulated profit / loss from previous years		(539 082 319)	(509 800 401)
Profit (loss) for the period		(33 311 574)	179 221 629
Non-controlling interests		63 671 916	69 453 273
Liabilities		**4 949 916 699**	**4 339 891 979**
Non-current liabilities		**96 108 526**	**266 177 397**
Long-term financial liabilities	22	4 932 920	154 322 501
Other long-term liabilities	20	58 148 822	72 643 362
Deferred tax liabilities	24	25 430 471	33 710 961
Employee benefits	19	6 484 166	4 966 996
Provisions	19	1 112 147	533 577
Current liabilities		**4 853 808 173**	**4 073 714 582**
Loans and borrowings	21	317 781 175	275 065 340
Short-term financial liabilities	22	249 437 574	56 624 075
Trade payables	20	3 940 899 244	3 459 300 147
Current tax liabilities	20	7 717 339	7 555 050
Other short-term payables	20	93 693 875	71 549 689
Current employee benefits	19	102 599 975	84 543 918
Provisions	19	141 678 990	119 076 364
Total equity and liabilities		**5 979 922 099**	**5 494 995 634**

BOOK VALUE PER SHARE

		as at 31.12.2017	as at 31.12.2016
Equity attributable to Owners of the Company		**966 333 484**	**1 085 650 382**
Number of shares	18	139 163 286	139 096 361
Diluted number of shares	18	142 069 536	139 530 636
Book value per share		**6,94**	**7,81**
Diluted book value per share		**6,80**	**7,78**

* Note 2

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 01.01 TO 31.12.2017

	for the period from 01.01.2017 to 31.12.2017	for the period from 01.01.2016 to 31.12.2016
Cash flow from operating activities		
Profit (loss) before tax	**20 312 674**	**235 918 759**
Adjustments for:	**234 781 900**	**219 036 091**
Depreciation and amortization	183 317 313	166 212 492
Share in profits (losses) of equity accounted investees	4 747 298	4 720 007
Valuation of motivational programm	3 920 000	-
Gain (loss) on sale of property, plant and equipment	(1 632 733)	3 975 498
Dividends received	(882 010)	(764 247)
Interest expenses	49 665 754	51 361 824
Interest received	(4 353 722)	(6 469 483)
Operating cash before changes in working capital	**255 094 574**	**454 954 850**
Changes in inventory	(163 262 983)	(71 557 836)
Changes in receivables	55 672 730	(211 466 827)
Changes in payables	354 695 373	183 627 921
Changes in provisions and employee benefits	19 222 193	13 873 632
Other adjustments	336 479	341 910
Operating cash	**521 758 366**	**369 773 650**
Interest received	2 086 644	1 517 960
Interest paid	(1 859 029)	(13 753 752)
Income tax paid	(28 400 750)	(33 514 290)
Net cash from operating activities	**493 585 231**	**324 023 567**
Cash flow from investing activities		
Aquisition of intangible assets	(42 934 408)	(41 408 274)
Proceeds from sale of intangible assets, property, plant and equipment	160 210	98 310
Aquisition of property, plant and equipment tangible fixed assets	(162 286 204)	(136 103 161)
Proceeds from sale of property, plant and equipment	42 403 978	13 777 177
Expenditures on other short-term financial assets	(50 062 551)	-
Dividends received	882 010	764 247
Aquisition of subsidiaries, net of cash aquired	(92 695 643)	(76 993 697)
Expenditures on the acquisition of subsidiares	(2 211 457)	(3 845 498)
Advances for acquisition of subsidiaries	-	(21 000 000)
Loans granted	(30 201 983)	(5 700 000)
Interest received	1 240 244	470 223
Net cash used in investing activities	**(335 705 804)**	**(269 940 673)**
Cash flow from financing activities		
Proceeds from issue of share capital	2 543 150	10 147 900
Income/expenses for other financial liabilities	(4 663 046)	(47 810 776)
Income/expenses for short term debt securities	58 533 443	-
Issue of financial debt securities	-	21 000 000
Proceeds from loans and borrowings	44 242 906	226 514 116
Repayment of borrowings	(59 356 440)	-
Income/expenses for liabilities from financial leasing	(7 139 597)	(7 229 156)
Other interests	(27 774 514)	(25 910 780)
Interests on loans and borrowings	(12 258 933)	(8 725 048)
Dividends paid	(111 277 151)	(146 394 794)
Net cash used in financing activities	**(117 150 181)**	**21 591 462**
Net change in cash and cash equivalents	**40 729 246**	**75 674 356**
Cash and cash equivalents at the beginning of the period	161 871 103	86 196 747
Cash and cash equivalents at the end of the period	**202 600 349**	**161 871 103**

CONSOLIDATED STATEMENT ON CHANGES IN EQUITY FOR THE PERIOD FROM 01.01 TO 31.12.2017

	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 31.12.2016								
Balance as at 01.01.2016 after changes	**138 829 311**	**755 123 316**	**-**	**(10 644 280)**	**217 018 280**	**1 100 326 626**	**60 808 127**	**1 161 134 753**
Total comprehensive income for the reporting period								
Owners of the Company	-	-	-	-	179 221 629	**179 221 629**	-	**179 221 629**
Non-controlling interests	-	-	-	-	-	**-**	10 795 118	**10 795 118**
Net profit presented directly in equity	-	-	-	4 333 575	-	**4 333 575**	-	**4 333 575**
Total comprehensive income for the period from 01.01. to 31.12.2016	**-**	**-**	**-**	**4 333 575**	**179 221 629**	**183 555 204**	**10 795 118**	**194 350 322**
Dividends paid	-	-	-	-	(139 084 436)	**(139 084 436)**	(7 310 358)	**(146 394 794)**
Transfer to reserve capital	-	587 721 393	-	-	(587 721 393)	**-**		**-**
Share options excercised	267 050	9 880 850	-	-	-	**10 147 900**	-	**10 147 900**
Settlement of acquisition and sale of shares	-	-	(69 189 100)	-	-	**(69 189 100)**	5 160 387	**(64 028 713)**
Other	-	(92 961)	-	-	(12 851)	**(105 813)**	-	**(105 813)**
Total contributions by and distributions to Owners of the Company	**267 050**	**597 509 282**	**(69 189 100)**	**-**	**(726 818 680)**	**(198 231 449)**	**(2 149 971)**	**(200 381 420)**
Balance as at 31.12.2016	**139 096 361**	**1 352 632 597**	**(69 189 100)**	**(6 310 705)**	**(330 578 771)**	**1 085 650 381**	**69 453 273**	**1 155 103 655**
Changes in equity in the period from 01.01 to 31.12.2017								
Balance as at 01.01.2017	**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								
Owners of the Company	-	-	-	-	(33 311 574)	**(33 311 574)**	-	**(33 311 574)**
Non-controlling interests	-	-	-	-	-	**-**	3 751 869	**3 751 869**
Other comprehensive income	-	-	-	(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)**	**966 333 484**	**63 671 916**	**1 030 005 400**

* Note 17
** Note 18

SUPPLEMENTARY INFORMATION TO THE CONSOLIDATED FINANCIAL STATEMENTS PREPARED FOR THE PERIOD FROM 01.01 TO 31.12.2017

1. GENERAL INFORMATION

1.1. ISSUE OF THE CONSOLIDATED FINANCIAL STATEMENTS

According to the resolution of the Management Board dated 22 March 2018 the consolidated financial statements of Eurocash S.A. Group for the period from 1 January 2017 to 31 December 2017 were authorized for issue by the management Board.
According to the information included in the report no. 1/2018 dated 15 January 2018 sent to the Polish Financial Supervision Authority, Eurocash S.A. issues its consolidated financial statements on 23 March 2018.
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

Standards and interpretations that have been issued but are not binding, because they have not been approved by the European Union or have been approved by the European Union, but have not been applied by the Company before, are presented below.

Implementation of IFRS 9

IFRS 9 „Financial Instruments" effective for the financial years beginning on or after 1 January 2018 with the possibility of earlier adoption.
IFRS 9 requires all the financial assets, within the scope of IAS 39, to be measured at an amortized cost or fair value. Debt investments held within a business model whose objective is to obtain the appropriate cash flow, consisting of a fixed basic payment amount and interest - are measured at an amortized cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at fair value at the end of subsequent reporting periods. In addition, changes in fair value of capital investments that are not held for trading may be presented in other comprehensive income, while in the income statement, it is recognized only as dividend. The decision is irreversible.
The Group does not expect the new standard to have a significant impact on the Group's financial statements.

Implementation of IFRS 15

The new accounting standard issued on 28 May 2014 applies to annual periods beginning on or after 1 January 2018.
The new standard primarily changes the way in which entities account for contracts with customers, mainly when one contract is related to the provision of services and goods.
The principles set out in IFRS 15 will apply to all contracts resulting in revenues. The new standard provides a unified model of recognition and valuation of sales. In accordance with it, the contract with the customer will be analyzed in five stages, including:

1. identification of contract,
2. identification of contractual (individual) obligations to perform service contained in the agreement,
3. setting the price transaction,
4. allocation of the price for the contract to realize the benefits contained in the agreement,

5. revenue recognition at the time of fulfillment of the obligations by the entity.

In accordance with IFRS 15, an entity recognizes revenue at the time of the fulfillment of a performance obligation, that is, now of transfer a control over the goods or services covered by this commitment to the customer. IFRS 15 also includes a much more restrictive guidance on specific aspects of revenue recognition. It also requires disclosure of a wide range of information. On 12 April 2016 explanations providing additional information and clarification regarding the key assumptions used in IFRS 15, including on the identification on separate responsibilities, determining whether an entity acts as an intermediary (agent), or is the main supplier of goods and services (principal) and the method of recording revenue from licenses have been published. Apart from the additional explanations, also exemptions and simplification were introduced for entities applying the new standard for the first time. IFRS 15 will come into force in the financial year commencing on January 1, 2018.
Upon implementation, IFRS 15 will replace the guidance on revenue recognition in IAS 18 "Revenue", IAS 11 "Construction Contracts" and related Interpretations.
The Group is in the advanced part of the analysis of the impact of the standard and does not expect it to have an impact on its net result, gross profit or EBITDA.
The Group identified the impact of the application of IFRS 15 as a presentation adjustment in the income statement in the lines of sales revenues and costs of sales.
According to the current analysis, sales from 2017 in the amount of PLN 1 804 million would be presented as a reduction of the cost of sales item using IFRS 15. Work on the analysis of other items of sales revenues in the amount of PLN 618 million is underway, where the Group has not yet made the final analysis of the inclusion of these items using IFRS 15.
The Group plans to complete work in this area before reporting the first quarter of 2018. The above amounts are the result of the current state of the conducted analysis and the Group does not exclude that the final values resulting from the application of IFRS 15 will be lower.

Implementation of IFRS 16
IFRS 16 „Leases” effective for the financial years beginning on or after 1 January 2019.
IFRS 16 establishes rules for the recognition, valuation, presentation and disclosures relating to the lease. All leasing transactions result in obtaining the lessee's right to use the assets and liabilities arising from the obligation to pay. Thus, IFRS 16 abolishes the distinction between operating leases and finance leases and introduces a model of accounting by the lessee. The lessee will be required to include:
- assets and liabilities for all leases entered a period of over 12 months, except when the asset is a low value;
- depreciation of leased assets separately from the interest on the lease liability in the financial statements.
Detailed analysis of the impact of the new standard on the financial statements of the Company has not yet been completed, the analysis is still in progress.

Other standards and interpretations:

- 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– not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2016;
- IFRS 15 *Revenue from Contracts with Customers* (issued on 28 May 2014), including amendments to IFRS 15 *Effective date of IFRS 15* (issued on 11 September 2015) - effective for financial years beginning on or after 1 January 2018;
- 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;

- Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* (issued on 12 September 2016) - effective for financial years beginning on or after 1 January 2018;
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions* (issued on 20 June 2016) - effective for financial years beginning on or after 1 January 2018,
- Amendments to IAS 28 *Investments in Associates and Joint Ventures* which are part of *Annual Improvements to IFRS Standards 2014-2016 Cycle* (issued on 8 December 2016) – effective for financial years beginning on or after 1 January 2018,
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* which are part of *Annual Improvements to IFRS Standards 2014-2016 Cycle* (issued on 8 December 2016) – effective for financial years beginning on or after 1 January 2018,
- IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration* (issued on 8 December 2016) - not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2018;
- Amendments to IAS 40: *Transfers of Investment Property* (issued on 8 December 2016) effective for financial years beginning on or after 1 January 2018;
- IFRS 17 *Insurance Contracts* (issued on 18 May 2017) - not yet endorsed by EU at the date of approval of these financial statements - effective for financial years beginning on or after 1 January 2021;
- IFRIC 23 *Uncertainty over Income Tax Treatments* (issued on 7 June 2017) - not yet endorsed by EU at the date of approval of these financial statements - 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)) - not yet endorsed by EU at the date of approval of these financial statements – 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) - not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2019;
- *Annual Improvements to IFRS Standards 2015-2017 Cycle* (issued on 12 December 2017) - not yet endorsed by EU at the date of approval of these financial statements – 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) - not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2019.

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 6, 8, 19 and 23.
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

1.6. COMPARABILITY OF FINANCIAL STATEMENTS

The accounting policies applied in the preparation of the attached financial statements are consistent with those applied in the preparation of the financial statements of the Group for the year ended 31 December 2016, except for the below amendments. These changes were applied in the attached financial statements on their effective date and had no significant impact on the disclosed financial information, or did not apply to the Company's transactions.

- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses
  The changes clarify issues related to deductible temporary differences associated with debt instruments measured at fair value, estimation of probable future taxable profits and assessment of whether taxable profits will be available against which the deductible temporary differences can be utilized. The changes are applied retrospectively.
- Amendments to IAS 7 Disclosure Initiative
  The changes require the entity to disclose information that enable users of financial statements to evaluate changes in liabilities arising from financing activities. Entities need not provide comparative information when they first apply the amendments,
- Amendments to IFRS 12 Disclosure of Interests in Other Entities which are part of Annual Improvements to IFRS Standards 2014-2016 Cycle.
  The changes clarify that the requirements in the standard apply also to an entity's interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and unconsolidated structured entities that are classified (or included in a disposal group that is classified) as held for sale or discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operation.

The Group has not decided to apply earlier any Standard, Interpretation or Amendment that has been issued, but has not yet become effective in light of the EU regulations.

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 31.12.2017

No	1	2	3	4	5	6	7	8
Unit	Eurocash S.A.	Eurocash Serwis Sp. z o.o.	Eurocash Franczyza Sp. z o.o.	Eurocash Trade 1 Sp. z o.o.	Eurocash Trade 2 Sp. z o.o.	Eurocash VC2 Sp. z o.o. w likwidacji	Premium Distributors Sp. z o.o.	Przedsiębiorstwo Handlu Spożywczego Sp. z o.o.
address	ul .Wiśniowa 11 62-052 Komorniki	ul .Wiśniowa 11 62-052 Komorniki	ul .Wiśniowa 11 62-052 Komorniki	ul .Wiśniowa 11 62-052 Komorniki	ul .Wiśniowa 11 62-052 Komorniki	ul .Wiśniowa 11 62-052 Komorniki	ul. Bokserska 66a 02-690 Warszawa	ul .Wiśniowa 11 62-052 Komorniki
core business activity	PKD 4690Z	PKD 4635Z	PKD 8299Z	PKD 4634A	PKD 4634A	PKD 7740Z	PKD 4634A	PKD 4690Z
registration court	District Court Poznań - Nowe Miasto i Wilda of Poznań, VIII Commercial Division of the National Court Register KRS 0000213765	District Court Poznań - Nowe Miasto i Wilda of Poznań, VIII Commercial Division of the National Court Register KRS 0000519553	District Court Poznań - Nowe Miasto i Wilda of Poznań, VIII Commercial Division of the National Court Register KRS 0000259846	District Court Poznań - Nowe Miasto i Wilda of Poznań, VIII Commercial Division of the National Court Register KRS 0000329002	District Court Poznań - Nowe Miasto i Wilda of Poznań, VIII Commercial Division of the National Court Register KRS 0000329037	District Court Poznań - Nowe Miasto i Wilda of Poznań, VIII Commercial Division of the National Court Register KRS 0000529945	District Court Warszawa, XIII Commercial Division of the National Court Register KRS 0000287947	District Court Zielona Góra, VIII Commercial Division of the National Court Register KRS 0000203619
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	03.11.2014	02.08.2010	02.08.2010
ownership interest	n/a	75,00%	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%
voting rights (in %)	n/a	75,00%	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%

Entities comprising the Eurocash capital group and associates as at 31.12.2017 (continued)

No	9	10	11	12	13	14	15	16
Unit	DEF Sp. z o.o.	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.
address	ul. Handlowa 6 15-399 Białystok	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
core business activity	PKD 4639Z	PKD 4711Z	PKD 7010Z	PKD 4711Z	PKD 4645Z	PKD 7022Z	PKD 4690Z	PKD 4711Z
registration court	District Court Białystok, XII Commercial Division of the National Court Register KRS 0000048125	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
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	18.03.2014	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%
voting rights (in %)	100%	100%	100%	100%	100%	100%	100%	100%

Entities comprising the Eurocash capital group and associates as at 31.12.2017 (continued)

No	17	18	19	20	21	22	23	24
Unit	Lewiatan Wielkopolska Sp. z o.o.	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.	PayUp Polska S.A.
address	Os. Winiary 54 60-665 Poznań	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
core business activity	PKD 7740Z	PKD 7740Z	PKD 6419Z	PKD 8299Z	PKD 7740Z	PKD 4639Z	PKD 4690Z	PKD 6120Z
registration court	District Court Poznań - Nowe Miasto i Wilda, VIII Commercial Division of the National Court Register KRS 0000133384	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 0000299000
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	21.12.2011	28.06.2013	21.12.2011	21.12.2011	18.11.2013	06.05.2014
ownership interest	100%	100%	100%	100%	67%	100%	100%	100%
voting rights (in %)	100%	100%	100%	100%	71%	100%	100%	100%

Entities comprising the Eurocash capital group and associates as at 31.12.2017 (continued)

No	25	26	27	28	29	30	31	32
Unit	Eurocash Convenience Sp. z o.o.	Kontigo Sp. z o.o.	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.
address	ul .Wiśniowa 11 62-052 Komorniki	ul .Wiśniowa 11 62-052 Komorniki	ul. Al.Jerozolimskie 174 02-486 Warszawa	ul. Bokserska 66A 02-690 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
core business activity	PKD 7010Z	PKD 7010Z	PKD 4617Z	PKD 7740Z	PKD 5621Z	PKD 4711Z	PKD 4711Z	PKD 4635Z
registration court	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	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
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	05.03.2014	17.04.2014	01.12.2014	11.05.2015	29.12.2015	22.07.2015	29.01.2016	20.06.2016
ownership interest	100%	100%	51%	100%	100%	100%	50%	100%
voting rights (in %)	100%	100%	51%	100%	100%	100%	50%	100%

Entities comprising the Eurocash capital group and associates as at 31.12.2017 (continued)

No	33	34	35	36	37	38	39	40
Unit	Eurocash Nieruchomości Sp. z o.o.	Eurocash Food Sp. z o.o.	Sushi to go Sp. z o.o.	Sushi to go Sp. z o.o. Sp. k.	Detal Finanse Sp. z o.o.	Polska Dystrybucja Alkoholi Sp. z o.o.	FHC-2 Sp. z o.o.	Madas Sp. z o.o.
address	ul. Wiśniowa 11 62-052 Komorniki	ul. Wiśniowa 11 62-052 Komorniki	ul. Piękna 24/26A 00-549 Warszawa	ul. Ks.Juliana Chrościckiego 93/105 02-414 Warszawa	ul. Wiśniowa 11 62-052 Komorniki	ul. Sempołowska 4 95-200 Pabianice	Ul Tysiąclecia 1 38- 400 Krosno	Ul Tysiąclecia 1 38- 400 Krosno
core business activity	PKD 7022Z	PKD 7022Z	PKD 1013Z	PKD 8299Z	PKD 6920Z	PKD 4634A	PKD 4711Z	PKD 4711Z
registration court	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	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 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	04.05.2015	04.05.2015	22.06.2016	22.06.2016	15.03.2016	30.12.2016	16.12.2016	16.12.2016
ownership interest	100,00%	100%	51%	51%	100%	100%	50%	50%
voting rights (in %)	100,00%	100%	51%	51%	100%	100%	50%	50%

Entities comprising the Eurocash capital group and associates as at 31.12.2017 (continued)

No	41	42	43	44	45	46	47	48	49
Unit	Zagłoba Sp. z o.o.	ECA Detal Sp. z o.o.	Eko Holding S.A.	Ledi Sp. z o.o.	Jim Sp. z o.o.	Foodmakers Logistics Sp, z o.o.	Eurocash VC6 Sp. z o.o.	EC VC7 Sp. z o.o.	Cerville Investments Sp. z o.o.
address	ul. Stara Huta 7 32-500 Chrzanów	ul. Sempołowskiej 4 95-200 Pabianice	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
core business activity	PKD 4634A	PKD 4725Z	PKD 4690Z	PKD 4711Z	PKD 7830Z	PKD 5210B	PKD 7320Z	PKD 4690Z	PKD 4110Z
registration court	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 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
nature of relationship	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary
applied consolidation method	Full	Full	Full	Full	Full	Full	Full	Full	Full
date of aquisition	30.12.2016	30.12.2016	04.01.2017	04.01.2017	04.01.2017	01.02.2017	18.01.2017	18.01.2017	13.12.2017
ownership interest	66%	100%	100%	100%	100%	50%	100%	100%	100%
voting rights (in %)	66%	100%	100%	100%	100%	50%	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 04.01.2017 Eurocash purchased 100% of shares in EKO Holding S.A. based in Nowa Wieś Wrocławska, at the same time acquiring 100% of shares in Ledi Sp. z o.o. and Jim Sp. z o.o.

On 18.01.2017 Eurocash Franczyza Sp. z o.o. and Eurocash Convenience Sp. z o.o created entities. Eurocash VC6 Sp. z o.o. and EC VC7 Sp. z o.o.

On 01.02.2017 Eurocash S.A. created the entity Foodmakers Logistics Sp. z o.o.

On 13.12.2017 Eurocash Franczyza Sp. z o.o. purchased 100% of shares in entity Cerville Investments Sp. z o.o.

Entities comprising the Eurocash capital group and associates as at 31.12.2017

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 business 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%

In addition, FRISCO S.A. has subsidiary FRISCO.PL Sp. z o.o. in which FRISCO.PL holds 100% of shares.

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.

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 2.2-2.34.

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.

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:

	31.12.2017	*31.12.2016*
EUR	4,1709	4,4240

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,
- 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.

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.

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.

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

At initial recognition financial instruments are measured at fair value plus directly attributable transaction costs, except when the instrument is classified as at fair value through profit or loss.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

A financial liability is derecognized when it is paid, canceled or barred.

In addition, exchange of financial liabilities with substantially different terms is recognized as a derecognition of the original financial liability and the recognition of a new financial liability. The exchange of financial liabilities, which does not cause a substantial change in the conditions, does not result in derecognition the original liability and the recognition of a new liability, for example, reverse factoring agreement due to trade liabilities, which do not substantially change the conditions of the original trade liabilities, does not result in derecognition the trade liabilities and recognition of new financial liabilities due to factoring

The fair value of financial instruments quoted in an active market is their quoted closing bid price at the reporting date.

However, if the transaction is not based on market terms, the fair value is determined by using the valuation techniques which include comparison with market value of similar financial instrument being quoted in the active market, based on estimated cash flows or valuation models of options taking into account circumstances specific to the Group.
At the reporting date, the Group determines whether indicators of assets' impairment occurred.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends to settle on a net basis and to realize the asset and settle the liability simultaneously.

Financial assets are classified into following categories:
(a) financial assets held-to-maturity,
(b) loans and receivables,
(c) financial assets available-for-sale,
(d) financial assets and liabilities measured at fair value through profit or loss.

The classification of financial instruments depends on the purpose of purchase.

(a) Financial assets held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity date that the Group has the positive intention and ability to hold to maturity, other than:
- those that the Group designates upon initial recognition as at fair value through profit or loss;

- those that the Group designates as available-for-sale;
- those that meet the definition of receivables and loans.

Those assets that are expected to be sold within 12 months of the reporting date are recognized as current assets.
Investments held-to-maturity are measured at amortised cost using the effective interest rate less impairment losses, if any.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, arising as a result of cash expenditures, supplying goods or rendering services, which are not intended to be recognized as assets measured at fair value through profit or loss.
The assets are recognized as current assets excluding those that maturity date exceeds 12 months of the reporting date.
Financial assets classified as loans and receivables are subsequently measured at amortised cost using the effective interest method less impairment losses if any.

Loans and receivables comprise trade receivables and other receivables.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or not designated as (a), (b) and (d) categories. They are recognized as current assets if there is an intention to dispose them within 12 months of the reporting date.
Available-for-sale assets are measured at fair value excluding instruments not possessing market price quoting from an active market and fair value of which cannot be measured reliably.

Available-for-sale financial assets' fair value changes, other than resulting from impairment, are recognized in other operating income and presented in equity as a separate line item. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

(d) Financial assets and liabilities designated as at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Upon initial recognition attributable transaction costs are recognized in the income statement as incurred. All profits and losses concerning those investments are recognized in the income statement of current financial period.

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 recognized initially at fair value. Attributable transaction costs are recognized in profit or loss account as incurred. Subsequent to initial recognition the Group measures derivatives at fair value, gains and losses resulting from the change of fair value are recognized in the way described below.

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

Trade receivables and other receivables are measured at fair value at the initial recognition date and are subsequently measured at amortised cost using effective interest method less bad debts allowance.

Irrecoverable receivables are written-off into profit or loss at the moment of ascertainment of their irrecoverability.

Penalty interests related to receivables not paid by Group's customers are recognized at the moment of obtaining cash by the Group.

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 situation, in the contractual amount is not probable - up to the amount of the debt not covered by the guarantee or other payment security,
- 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 comprise cash balances, call deposits and restricted cash. Bank overdrafts repayable on demand form an integral part of the Group's cash management and are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

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,
- prepayments for other services (e.g. telecommunications),
- advance payments for lease of equipment.

2.21. IMPAIRMENT

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed by the Group at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include:

- default or delinquency by a debtor,
- 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.

Group considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment.
All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investment securities with similar risk characteristics.
In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognized in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in the income statement. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in the income statement. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

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.

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

Sales are measured at fair value of the consideration received or receivable and represent receivables for goods provided and services rendered in the course of ordinary activities, net of rebates, value added tax and other taxes related to sales (excise tax).

Goods sold

Revenue from the sale of goods is recognized on condition that:

- the significant risk and rewards of ownership have been transferred to the buyer,
- there is no continuing management involvement with the goods and there is no effective control over those goods,
- the amount of revenue can be measured reliably,
- there is probability that the transaction will result in revenue,
- the associated costs and possible return of goods can be estimated reliably,
- recovery of the consideration is probable.

Services

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The outcome of transaction can be measured reliably on condition that:

- the amount of revenue can be measured reliably,
- there is probability that the transaction will result in revenue,
- the stage of completion of the transaction at the reporting date can be assessed reliably,
- the associated costs and costs of closing the transaction can be estimated reliably.

When the outcome of the transaction cannot be measured reliably, revenue from services rendered is recognized only to the extent of contract costs incurred that are likely to be recoverable.

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 expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.
Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment or tax payable in respect of previous years. Tax income differs from the accounting profit (loss) regarding the elimination of taxable income and expenses related to future years and income and expenses which will never be taxable. Tax liabilities are calculated based on tax rates effective during the reporting period.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liability is recognized for all taxable positive temporary differences and deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill and on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, excluding transactions related to mergers and acquisitions.

Deferred tax assets is reviewed at the end of each reporting period, and if the expected future tax profits will not be sufficient to realize the asset or its part, the amount realizable is recognized.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax is recognized in profit or loss, except items recognized directly in equity or other comprehensive income. Then, deferred tax is expensed directly in equity or other comprehensive income.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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.

2.32. 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.

2.33. 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.

2.34. 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 31.12.2017

NOTE 1.
ACQUISITION OF SHARES IN A SUBSIDIARY

1. Acquisition of 100% shares in EKO Holding S.A.

General information

On 4 January 2017, Eurocash purchased 100% of shares in the company EKO Holding S.A. based in Nowa Wieś Wrocławska and indirectly in companies Ledi Sp. z o.o. and Jim Sp. z o.o.
Thus, Eurocash acquired a network of brand grocery stores (operating mainly in southwestern Poland), which will allow for further development of Eurocash Group and better use of its potential. Consequently, this should translate into revenue growth of Eurocash Group.

GENERAL INFORMATION CONCERNING BUSINESS ACQUISITION OF THE UNIT

1.	Name of acquired company	EKO Holding S.A.
2.	Acquisition date	04.01.2017
3.	Acquisition cost	127 636 972

Settlement of business acquisition

The Group made the settlement of the purchase price.
There were no significant changes from the initial settlement of the purchase price.

ACQUISITION COST

	as at 04.01.2017
Cash	**127 636 972**

NET ASSETS ACQUIRED	Settlement of the acquisition as at 04.01.2017
Assets	
Non-current assets (long-term)	**98 194 453**
Intangible assets	1 214 192
Tangible fixed assets	91 398 595
Long-term financial assets available for sale	7 410
Long-term receivables	2 515 307
Deferred income tax assets	2 980 124
Other long-term prepayments	78 826
Current assets (short-term)	**87 498 911**
Inventory	62 285 265
Trade receivables	7 711 836
Other short-term receivables	1 906 986
Short-term prepayments	1 333 495
Cash and cash equivalents	14 261 329
Total assets	**185 693 364**
Equity nad liabilities	
Liabilities	202 640 362
Non-current liabilities	**44 798 554**
Other long-term financial liabilities	319 773
Long-term loans and credits	43 469 795
Other long-term liabilities	171 518
Deferred tax liabilities	837 468
Current liabilities	**157 841 808**
Short-term loans and credits	17 577 068
Other short-term financial liabilities	934 891
Trade liabilities	107 307 767
Other short-term liabilities	4 760 468
Current employee benefits	5 035 068
Other short-term provisions	22 226 547
Total liabilities	**202 640 362**
Net assets	**(16 946 998)**
Net assets acquired (100 %)	(16 946 998)
Goodwill on acquisition	144 583 970
Acquisition cost	**127 636 972**

2. Acquisition of 50% of shares in FHC-2 Sp. z o.o. and Madas Sp. z o.o.

General information

On 16th December 2016, pursuant to the preliminary agreement of sale of shares, dated 15th April 2016, Eurocash S.A. concluded an agreement of sale of shares with Marek Stodółka, Bogdan Habrat, Zofia Szubra, Aleksandra Stodółka, Anna Dąbrowska, FHC-2, M. Stodółka i Wspólnicy spółka jawna, FHC-2 spółka z ograniczoną odpowiedzialnością, Fructar spółka z ograniczoną odpowiedzialnością, Madas spółka z ograniczoną odpowiedzialnością, FHC-3 spółka z ograniczoną odpowiedzialnością, pursuant to which Eurocash acquired 50% stake in FHC-2 Sp. z o.o. and Madas Sp. z o.o. based in Krosno.

GENERAL INFORMATION CONCERNING BUSINESS ACQUISITION OF THE UNITS

1.	Name of acquired company	FHC-2 Sp. z o.o. and Madas Sp. z o.o.
2.	Acquisition date	16.12.2016
3.	Acquisition cost	29 989 100

Settlement of the business acquisition

Based on the analysis performed by the Company, in accordance with IFRS 10, FHC-2 Sp. o.o. and Madas Sp. z o.o. are a subsidiaries controlled by Eurocash S.A.

The Group made the settlement of the acquisition price.

There were no significant changes from the initial settlement of the purchase price.

ACQUISITION COST

	as at 16.12.2016
Cash	**29 989 100**

NET ASSETS ACQUIRED	Settlement of the acquisition as at 16.12.2016
Assets	
Non-current assets (long-term)	**4 324 009**
Tangible fixed assets	3 949 331
Deferred income tax assets	374 678
Current assets (short-term)	**20 257 632**
Inventory	12 907 863
Trade receivables	1 851 621
Current income tax receivables	175 459
Other short-term receivables	865 064
Short-term prepayments	10 314
Cash and cash equivalents	4 447 312
Total assets	24 581 642
Equity nad liabilities	
Liabilities	23 912 931
Non-current liabilities	2 022 108
Other long-term financial liabilities	75 575
Other long-term liabilities	52 539
Deferred tax liabilities	3 476
Employee benefits	1 890 518
Current liabilities	**21 890 823**
Other short-term financial liabilities	71 626
Trade liabilities	19 647 174
Other short-term liabilities	1 305 023
Current employee benefits	765 407
Other short-term provisions	101 593
Total liabilities	23 912 931
Net assets	668 710
Net assets acquired (50%)	334 355
Goodwill on acquisition	29 654 745
Acquisition cost	29 989 100

As part of settlement of the acquisition of 50% of shares in FHC-2 Sp. o.o. and Madas Sp. z o.o., these financial statements present the option for Eurocash S.A. to repurchase the remaining 50% of shares, which was offered by Eurocash S.A. to the remaining shareholders of FHC-2 Sp. o.o. and Madas Sp. z o.o. and which may be exercised after three years from 16 December 2016. This option, valuated on 31 December 2017, in the amount of PLN 18,6 million, was recognized in other long-term liabilities and in the shareholders' equity.

3. Acquisition of 100% of shares in Polska Dystrybucja Alkoholi Sp. z o.o.

General information

On 30 December 2016, Eurocash purchased 100% shares in “Polska Dystrybucja Alkoholi” Sp. z o.o. based in Pabianice, a distributor of alcohol products in central Poland.
Acquisition of PDA will increase the Eurocash Group's share in the segment of alcohol distribution, which should result in an increase of its revenues.

GENERAL INFORMATION CONCERNING BUSINESS ACQUISITION OF THE UNITS

1.	Name of acquired company	PDA Sp. z o.o.
2.	Acquisition date	30.12.2016
3.	Acquisition cost	18 920 000

Settlement of business acquisition

The Group made the settlement of the acquisition price.
There were no significant changes from the initial settlement of the purchase price.

ACQUISITION COST

	as at 30.12.2016
Cash	**18 920 000**

NET ASSETS ACQUIRED	Settlement of the acquisition as at 30.12.2016
Assets	
Non-current assets (long-term)	**2 285 063**
Intangible assets	35 085
Tangible fixed assets	1 555 802
Deferred income tax assets	694 175
Current assets (short-term)	**45 780 525**
Inventory	17 979 134
Trade receivables	22 347 346
Current income tax receivables	279 480
Other short-term receivables	1 762 648
Short-term prepayments	467 780
Cash and cash equivalents	2 944 138
Total assets	48 065 588
Equity nad liabilities	
Liabilities	46 629 957
Non-current liabilities	**2 210 509**
Employee benefits	503 112
Deferred tax liabilities	264 259
Other long-term provision	1 443 138
Current liabilities	**44 419 448**
Short-term loans and credits	18 884 916
Other short-term financial liabilities	1 699 904
Trade liabilities	19 597 064
Other short-term liabilities	1 543 387
Current employee benefits	457 635
Other short-term provisions	2 236 541
Total liabilities	46 629 957
Net assets	1 435 630
Net assets acquired (100%)	1 435 631
Goodwill on acquisition	17 484 369
Acquisition cost	18 920 000

NOTE 2.
RESTATEMENT OF COMPARATIVE DATA

The restatement is related to the transfer of costs related to current assets from other operating expenses to the costs of goods sold.

	The amount in the approved report	Correction	The corrected amount
	for the period from 01.01.2016 to 31.12.2016	for the period from 01.01.2016 to 31.12.2016	for the period from 01.01.2016 to 31.12.2016
Costs of sales	**(19 036 108 935)**	**(71 671 429)**	**(19 107 780 364)**
Costs of goods sold	(18 882 353 115)	(71 671 429)	(18 954 024 544)
Costs of services sold	(148 897 359)	-	(148 897 359)
Costs of materials sold	(4 858 461)	-	(4 858 461)
Profit (loss) on sales	**329 173 183**	**(71 671 429)**	**257 501 755**
Other operating income	59 669 236	(2 335 023)	57 334 214
Other operating expenses	(114 560 200)	74 006 451	(40 553 749)
Operating profit (loss)	**274 282 219**	-	**274 282 219**

The following adjustment in the amount of PLN 7,600,000 is related to reclassification between deferred tax and receivables from current income tax, the amount of PLN 34.227.069 is related to the reclassification between the deferred tax assets and liability, the amount of 1,329,656 is related to the reclassification between short-term and long-term prepayments.

	The amount in the approved report as at 31.12.2016	Other corrections	The corrected amount as at 31.12.2016
Assets			
Non-current assets (long-term)	**2 320 866 335**	**(32 897 413)**	**2 287 968 922**
Deferred tax assets	81 311 142	(34 227 069)	47 084 072
Other long-term prepayments	8 204	1 329 656	1 337 861
Current assets (short-term)	**3 200 756 367**	**6 270 344**	**3 207 026 712**
Current tax receivables	8 958 439	7 600 000	16 558 439
Short-term prepayments	47 246 807	(1 329 656)	45 917 150
Total assets	**5 521 622 703**	**(26 627 069)**	**5 494 995 634**

	The amount in the approved report as at 31.12.2016	Other corrections	The corrected amount as at 31.12.2016
Equity and liabilities			
Liabilities	**4 366 519 048**	**(26 627 069)**	**4 339 891 979**
Non-current liabilities	**292 804 467**	**(26 627 069)**	**266 177 397**
Deferred tax liabilities	60 338 030	(26 627 069)	33 710 961
Total equity and liabilities	**5 521 622 703**	**(26 627 069)**	**5 494 995 634**

NOTE 3.
OPERATING SEGMENTS

Starting in 2017, 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:

- *Independent clients* – sales transacted by those distribution formats whose clients do not have permanent contracts with the Eurocash Group. 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.
- *Integrated clients* – 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. This segment includes sales organization and wholesale to clients-members of the Delikatesy Centrum franchise chain, 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. (Delikatesy Centrum format), 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., Ledi Sp. z o.o. and JIM Sp. z o.o.
- *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 To Go Sp. z o.o. Sp. k., 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., Eurocash VC3 Sp. z o.o. Detal Finanse Sp. z o.o. and the Group’s general and administrative expenses not allocated to any operating segment.

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 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 2017 TO 31 DECEMBER 2017

	Indenpendent wholesale	Integrated wholesale	Retail	New projects	Other	VAT settlements	Exclusions	Total
Sales	**14 460 055 730**	**8 065 172 262**	**2 272 865 797**	**557 254 977**	**306 975**	**-**	**(2 084 577 265)**	**23 271 078 476**
External sales	13 484 574 581	6 984 526 748	2 247 436 416	554 233 756	306 975	-	-	23 271 078 476
Inter-segmental sales	975 481 149	1 080 645 514	25 429 381	3 021 221	-	-	(2 084 577 265)	-
Operating profit	**114 172 200**	**208 663 708**	**8 588 132**	**(53 062 392)**	**(100 966 538)**	**(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)**

REVENUES AND RESULTS BY BUSINESS SEGMENTS IN THE PERIOD FROM 01 JANUARY 2016 TO 31 DECEMBER 2016 (restated)

	Indenpendent wholesale	Integrated wholesale	Retail	New projects	Other	VAT settlements	Exclusions	Total
Sales	**13 885 708 971**	**7 531 657 409**	**976 466 992**	**274 954 573**	**-**	**-**	**(1 448 888 176)**	**21 219 899 769**
External sales	13 051 851 830	6 917 339 263	975 854 722	274 853 954	-	-	-	21 219 899 769
Inter-segmental sales	833 857 141	614 318 146	612 270	100 619	-	-	(1 448 888 176)	-
Operating profit	**178 654 087**	**208 241 544**	**16 186 675**	**(41 527 361)**	**(87 272 726)**	**-**	**-**	**274 282 219**
Finance income								24 205 984
Finance costs								(57 849 438)
Share in losses of companies consolidated with the equity method								(4 720 007)
Profit before income tax								**235 918 759**
Income tax								(45 902 013)
Net profit (loss)								**190 016 746**

NOTE 4.
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 31.12.2017

	Goodwill	Patents and licences	Trademarks	Customer relations	Other intangible assets	**Total**
Carrying amount as at 01.01.2016	**1 172 298 640**	**25 069 178**	**86 450 063**	**234 339 948**	**32 776 666**	**1 550 934 494**
Acquisition through business combination	81 809 385	1 191 392	-	-	181 563	**83 182 340**
Other acquisitions	-	31 298 373	-	-	8 798 941	**40 097 314**
Increases due to the transfer of fixed assets under construction	-	2 299 095	-	-	500 931	**2 800 026**
Disposals	-	(458)	-	-	-	**(458)**
Liquidations	-	-	-	-	(1 620 498)	**(1 620 498)**
Amortisation	-	(28 206 228)	(10 378 347)	(20 399 991)	(3 827 578)	**(62 812 143)**
Other changes	-	(276)	(5 500 000)		5 348 332	**(151 944)**
Carrying amount as at 31.12.2016 - restated	**1 254 108 025**	**31 651 076**	**70 571 716**	**213 939 957**	**42 158 357**	**1 612 429 131**
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**

GOODWILL AND INTANGIBLE FIXED ASSETS IN THE PERIOD FROM 01.01 TO 31.12.2017 (continued)

	Goodwill	Patents and licences	Trademarks	Customer relations	Other intangible assets	**Total**
As at 31.12.2016						
Cost	1 254 108 025	157 138 535	104 997 795	315 673 264	114 416 207	1 946 333 826
Accumulated amortisation and impairment losses	-	(125 487 459)	(34 426 078)	(101 733 307)	(72 257 851)	(333 904 696)
Carrying amount	**1 254 108 025**	**31 651 076**	**70 571 717**	**213 939 957**	**42 158 357**	**1 612 429 131**
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 and impairment losses	-	(147 065 839)	(38 300 425)	(122 133 298)	(82 018 810)	(389 518 371)
Carrying amount	**1 401 336 787**	**30 982 936**	**67 678 294**	**193 539 966**	**54 884 985**	**1 748 422 968**

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 51% shares in affiliate: PayUp S.A., in the amount of PLN 5.722.015,

l) goodwill on acquisition by Eurocash S.A. of FMCG Service sp. z o.o., in the amount of PLN 60.349.278,

m) goodwill on acquisition by Eurocash S.A. of Inmedio sp. z o.o., in the amount of PLN 55.021.256.

n) goodwill on acquisition by Eurocash S.A. of Firma Rogala Sp. z o.o. in the amount of PLN 37.315.064,31,

o) 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,

p) goodwill on acquisition by Eurocash S.A. of Polska Dystrybucja Alkoholi Sp. z o.o. in the amount of PLN 14.899.692,81,

q) goodwill on acquisition by Eurocash S.A. of EKO Holding S.A. in the amount of PLN 144.583.970.

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 6.

NOTE 5.
PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are presented below:

PROPERTY, PLANT AND EQUIPMENT IN THE PERIOD FROM 01.01 TO 31.12.2017

	Land and buildings	Plant and equipment	Vehicles	Other fixed assets	Fixed assets under construction	**Total**
Carrying amount as at 01.01.2016	**354 013 748**	**102 138 280**	**8 733 362**	**96 263 567**	**8 142 507**	**569 291 464**
Acquisition through business combination	7 187 249	8 007 495	1 040 865	8 412 991	2 101 606	**26 750 207**
Other acquisitions	11 822 338	36 680 540	10 693 370	40 907 464	12 209 103	**112 312 815**
Changes due to the transfer of fixed assets under construction	7 572 622	865 103	10 072	1 135 361	(6 713 104)	**2 870 054**
Finance lease	-	556 910	-	1 814 123	-	**2 371 034**
Disposals	(14 450 189)	(126 661)	(3 136 907)	(323 180)	(97 500)	**(18 134 437)**
Liquidations	(2 390 643)	(292 915)	(13 907)	(185 889)	-	**(2 883 355)**
Finance lease	-	(2 629 054)	(172 146)	(486 568)	-	**(3 287 768)**
Depreciation	(29 688 465)	(29 225 659)	(6 323 521)	(38 162 705)	-	**(103 400 349)**
Other changes	5 706 694	-	1 053 304	396 741	(5 651 995)	**1 504 745**
Carrying amount as at 31.12.2016	**339 773 354**	**115 974 040**	**11 884 493**	**109 771 905**	**9 990 617**	**587 394 409**
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**

PROPERTY, PLANT AND EQUIPMENT IN THE PERIOD FROM 01.01 TO 31.12.2017 (continued)

	Land and buildings	Plant and equipment	Vehicles	Other fixed assets	Fixed assets under construction	**Total**
As at 31.12.2016						
Cost	518 536 350	265 279 802	121 974 891	148 930 247	10 088 117	1 064 809 407
Accumulated amortisation and impairment losses	(178 762 997)	(149 305 762)	(110 090 398)	(39 158 342)	(97 500)	(477 414 998)
Carrying amount	**339 773 354**	**115 974 040**	**11 884 493**	**109 771 905**	**9 990 617**	**587 394 409**
As at 31.12.2017						
Cost	570 637 367	344 073 974	130 182 260	208 028 761	31 185 980	1 284 108 341
Accumulated amortisation and impairment losses	(212 548 393)	(189 474 294)	(116 064 366)	(86 934 082)	(97 500)	(605 118 635)
Carrying amount	**358 088 974**	**154 599 680**	**14 117 893**	**121 094 678**	**31 088 480**	**678 989 707**

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 17.906.476 (31.12.2016: PLN 13.178.896), and the amount payable to the lessor in this respect amounted to PLN 10.714.936 (31.12.2016: PLN 21.375.532). 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 6.
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 31.12.2017,
- impairment test of the "abc" trademark with a value of PLN 17.216.759 as at 31.12.2017,

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 2018-2022. 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 2018-2022. In order to determine the total level of sales, sales increases were predicted for the existing locations at the date of the test.

In order to determine the total level of sales, sales increases were predicted for the existing locations at the date of the test.

As at 31.12.2017 the Group also conducted impairment tests with each of goodwill presented in the financial statements at a total value of PLN 1.401.336.787 and determined the recoverable amounts of the cash-generating units to which these goodwill are allocated.

The recoverable amount of individual cash-generating unit was compared with the carrying amount defined as the total assets of the cash generating unit, less current liabilities being part of working capital.

For impairment testing of goodwill, recoverable amount was determined as the value in use of the tested cash-generating unit, based on financial projections for the years 2018-2022. To determine the values of selected projection ratios, historical data for 2017 was used as well as plans approved by the Management Board of Eurocash S.A. for the years 2018-2022.
In order to determine the total sales value, sales increases were forecasted for stores existing on the date of testing, as well as the increase of the number of stores in each year of forecast.
The weighted average cost of capital (WACC) was used as the discount rate (depending on the goodwill and the related type of business it ranged from 7.87% to 11.95%). For the purpose of calculating the cost of capital, 11 comparable companies from the trade sector were analyzed.

Analyses confirmed that it was not necessary to recognize impairment loss.

In the Group's opinion, no rational change in the key assumptions used to measure the recoverable amount of individual cash-generating units will result in the balance sheet value of these centers being higher than their recoverable amount.

NOTE 7.
INVESTMENT PROPERTIES

Investment properties are presented below:

INVESTMENT PROPERTY AS AT 31.12.2017

	as at 31.12.2017	as at 31.12.2016
Opening balance	**988 495**	**1 004 191**
Depreciation	(15 696)	(15 696)
Closing balance	**972 799**	**988 495**

NOTE 8.
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 31.12.2017

	as at 31.12.2017	as at 31.12.2016
Opening balance	**34 951 736**	**35 691 120**
Increase in reporting period:	**2 211 457**	**3 980 623**
Acquisition of shares*	2 211 457	3 980 623
Decrease in reporting period:	**(4 747 298)**	**(4 720 007)**
Interest in losses	(4 747 298)	(4 720 007)
Closing balance	**32 415 896**	**34 951 736**

* due to the acquisition in 2017, by Eurocash S.A. 488.601 new ordinary shares in Frisco S.A., for the amount of 2.211.457 PLN, due to the capital increase of the company Frisco S.A.

NOTE 9.
OTHER LONG-TERM INVESTMENTS

Other investments are presented below:

OTHER LONG-TERM INVESTMENTS AS AT 31.12.2017

	as at 31.12.2017	as at 31.12.2016
Loans granted to associates	30 253 086	-
Shares in other entities	531 570	531 570
	30 784 656	**531 570**

The loan was granted on market terms, with a repayment period of more than twelve months.

NOTE 10.
LONG-TERM RECEIVABLES

Long-term receivables are presented below:

LONG-TERM RECEIVABLES AS AT 31.12.2017

	as at 31.12.2017	as at 31.12.2016
Security deposits on rental agreements	6 524 435	3 180 445
Other long-term receivables	631 807	71 202
	7 156 243	**3 251 647**

NOTE 11.
OTHER LONG-TERM PREPAYMENTS

Other long-term prepayments are presented below.

OTHER LONG-TERM PREPAYMENTS AS AT 31.12.2017

	as at 31.12.2017	as at 31.12.2016
IT licences	-	1 604
Rentals	775 204	314 820
Alcohol licences	1 666	-
Rental of premises - premium	356 221	262 574
Other prepayments	773 450	758 863
	1 906 541	**1 337 861**

NOTE 12.
INVENTORIES

Inventories are presented below:

INVENTORIES AS AT 31.12.2017

	as at 31.12.2017	as at 31.12.2016
Merchandise	1 320 023 150	1 088 653 357
Materials	231 064	255 066
Total inventories, including:	**1 320 254 214**	**1 088 908 423**
- carrying amount of inventory deposits securing payments of liabilities	258 000 000	170 000 000

ALLOWANCE FOR INVENTORIES IN THE PERIOD FROM 01.01 TO 31.12.2017

	for the period from 01.01.2017 to 31.12.2017	for the period from 01.01.2016 to 31.12.2016
Opening balance	**16 994 873**	**20 671 813**
- increase in the allowance during the period *	13 472 273	-
- write-offs during the period *	-	(3 676 940)
Closing balance	**30 467 146**	**16 994 873**

** net value*

NOTE 13.
TRADE AND OTHER RECEIVABLES

Trade receivables and other receivables are presented below:

TRADE RECEIVABLES AND OTHER RECEIVABLES AS AT 31.12.2017

	as at 31.12.2017	as at 31.12.2016
Trade receivables	**1 682 841 291**	**1 748 183 885**
Credit sales	1 044 850 240	1 086 275 100
Receivables from suppliers *	584 584 460	640 164 447
Receivables from franchisees**	21 852 020	26 515 066
Franchise fees	17 958 454	18 075 400
Other trade receivables	74 463 090	38 152 841
Allowance for trade receivables	(60 866 973)	(60 998 968)
Current tax assets	**11 584 927**	**16 558 439**
Other receivables	**143 072 941**	**139 874 535**
VAT settlements	82 881 049	56 083 533
Receivables subject to legal proceedings	80 996 412	73 541 608
Receivables from employees	1 933 143	1 515 536
Insurance claims receivables	7 461 534	2 260 541
Receivables from sales fixed assets	4 862 578	4 164 820
Advances for acquisition of shares	-	21 000 000
Other receivables	44 809 285	40 031 041
Allowance for other bad debts	(79 871 061)	(58 722 543)
Total receivables, including:	**1 837 499 159**	**1 904 616 860**
- short-term	1 837 499 159	1 904 616 860

* These charges relate to transactions with suppliers, which, depending on the specifics of these transactions are recognized in the consolidated income statement as revenues from sales of services or reduces the value of goods sold

** Receivables from franchisees transferred to the financing concern trade receivables from franchisees that were covered by the contracts recourse factoring.

NOTE 14.
SHORT-TERM INVESTMENTS

Short-term investments are presented below:

OTHER SHORT-TERM INVESTMENTS AS AT 31.12.2017

	as at 31.12.2017	as at 31.12.2016
Loans granted to other entities	99 482	5 713 175
Shares in other entities	50 335 257	-
	50 434 740	**5 713 175**

The increase in the value of other short-term financial assets results from the acquisition of shares, shares in other entities that are classified as assets held for sale.

NOTE 15.
SHORT-TERM PREPAYMENTS

Short-term prepayments are presented below

SHORT-TERM PREPAYMENTS AS AT 31.12.2017

	as at 31.12.2017	as at 31.12.2016
Alcohol licences	4 388 361	11 688 070
Rentals	6 876 882	3 094 828
Media	87 238	53 313
Insurances	4 881 207	3 755 787
Lease of commercial premises	2 665 581	3 745 562
Other settlements	541 889	666 688
Other short-term prepayments	22 726 906	22 912 903
	42 168 063	**45 917 150**

NOTE 16.
CASH AND CASH EQUIVALENS

Cash and cash equivalents are presented below:

CASH AND CASH EQUIVALENTS AS AT 31.12.2017

	as at 31.12.2017	as at 31.12.2016
Cash at bank	27 932 541	28 480 272
Cash on hand	9 207 830	3 732 269
Cash in transit	95 718 865	69 480 756
Cash on short-term deposits	69 367 413	59 253 854
Others	373 701	923 954
Total cash	**202 600 349**	**161 871 104**

NOTE 17.
SHARE CAPITAL

Share capital is presented below:

SHARE CAPITAL AS AT 31.12.2017

	as at 31.12.2017	as at 31.12.2016
Number of shares	139 163 286	139 096 361
Nominal value (PLN / share)	1	1
Share capital	**139 163 286**	**139 096 361**

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

	31.12.2017				31.12.2016			
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.)	60 843 178	43,72%	60 843 178	43,72%	60 615 240	43,58%	60 615 240	43,58%
Azvalor Asset Management S.G.I.I.C. S.A.	7 498 451	5,39%	7 498 451	5,39%	b.d.	<5%	b.d.	<5%

Changes in the initial capital were as follows:

SHARE CAPITAL IN THE PERIOD FROM 01.01 TO 31.12.2017

	for the period from 01.01.2017 to 31.12.2017	for the period from 01.01.2016 to 31.12.2016
Share capital at the beginning of the period	**139 096 361**	**138 829 311**
Increase of share capital in the period	**66 925**	**267 050**
Incentive programs for employees	66 925	267 050
Share capital at the end of the period	**139 163 286**	**139 096 361**

In 2017, 66.925 ordinary shares were issued due to exercising share options granted to key personnel of the Group under incentive schemes (2016: 267.050 shares). These options were exercised at price PLN 38,00 per share. All shares issued were fully covered with cash.

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 25 April 2017, the financial result for 2016 in the amount of PLN 102.614.073 was divided through Resolution 5 of the Ordinary General Meeting of Shareholders of Eurocash S.A. as the parent company.
The part of profit in the amount of PLN 101.589.198,78 was allocated to dividend, which was paid on 6 June 2017.

NOTE 18.
SHARE OPTIONS

Treasury share options are presented below:

OPTIONS FOR SHARES IN THE PERIOD FROM 01.01 TO 31.12.2017

	Number of options	Weighted average exercise prices (PLN/share)
Existing at the beginning of the reporting period	434 275	38,00
Granted in the reporting period	2 906 250	32,51
Exercised in the reporting period	(66 925)	38,00
Expired in the reporting period	(367 350)	38,00
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 31.12.2017, 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.

In the year ended on 31.12.2016, options were exercised for 267,050 ordinary M series 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 10,147,900.

The fair value of shares granted in the period from 01.01.2017 to 31.12.2017 amounts to PLN 3,920,000 and is recognized as an expense in the income statement for this period (in the year ended 31 December 2016, 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.

NOTE 19.
PROVISIONS AND ACCRUALS

Provisions and accruals are presented below:

PROVISIONS AND ACCRUALS IN THE PERIOD FROM 01.01 TO 31.12.2017

	Employee benefits	Accrual for costs of transport	Accrual for advertising costs	Accrual for wholesalers income commission
Provisions and accruals as at 01.01.2016	**73 399 444**	**6 127 614**	**34 319 398**	**846 905**
Increases*	26 116 174	217 538	-	46 021
Decreases*	(10 004 704)	-	(3 065 791)	-
Provisions and accruals as at 31.12.2016, including:	**89 510 914**	**6 345 152**	**31 253 607**	**892 927**
- short-term	84 543 917	6 345 152	31 253 607	892 927
- long-term	4 966 996	-	-	-
Provisions and accruals as at 01.01.2017	**89 510 914**	**6 345 152**	**31 253 607**	**892 927**
Increase due to acquisition	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	-	-	-

** net value*

PROVISIONS AND ACCRUALS IN THE PERIOD FROM 01.01.2014 TO 31.12.2017 (continued)

	Provision for interests	Accrual for costs of media	Other	**Total**
Provisions and accruals as at 1 January 2016	**8 266 543**	**7 846 458**	**47 780 492**	**178 586 855**
Increases*	3 127 065	577 426	13 520 270	43 604 494
Decreases*	-	-	-	(13 070 495)
Provisions and accruals as at 31 December 2016, including:	**11 393 608**	**8 423 884**	**61 300 763**	**209 120 854**
- short-term	11 393 608	8 423 884	60 767 186	203 620 281
- long-term	-	-	533 577	5 500 573
Provisions and accruals as at 1 January 2017	**11 393 608**	**8 423 884**	**61 300 763**	**209 120 854**
Increase due to acquisition	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

** net value*

PROVISIONS AS AT 31.12.2017

	as at 31.12.2017	as at 31.12.2016
Employee benefits	109 084 141	89 510 913
Accrual for advertising costs	37 081 422	31 253 607
Accrual for intrests	8 865 239	11 393 608
Accrual for costs of media	8 366 606	8 423 884
Accrual for ligitations	9 841 553	10 503 439
Accrual for advisory and audit	4 901 130	3 136 949
Accrual for costs of transport	7 681 187	6 345 152
Accrual for rental costs	5 907 026	5 518 566
Accrual for agent's commisions	98 400	892 927
Accural for IT modernist works	592 159	1 674 086
Accrual for bonuses	10 039 045	7 815 848
Accrual for the costs of liquidation of the locations	1 966 157	-
Accrual for concessions	948 798	-
Other provisions and accruals	46 502 416	32 651 876
	251 875 278	**209 120 855**
- long-term	7 596 313	5 500 573
- short-term	244 278 965	203 620 282

Provisions and liabilities for employee benefits

Provisions and liabilities for employee benefits include provision for retirement benefits 4.050.232 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 3.5%, 2.28% 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 2017.

Provision for interest

Provision applies to the estimated costs associated with unpaid liabilities for which contractual dates passed as at 31 December 2017.

It is expected that the reserve will be completed within 12 months from 31 December 2017.

NOTE 20.
TRADE AND OTHER PAYABLES

Trade and other payables are presented below:

TRADE AND OTHER PAYABLES AS AT 31.12.2017

	as at 31.12.2017	as at 31.12.2016
Trade payables	**3 940 899 244**	**3 459 300 147**
Payables due to purchase of goods	3 761 898 091	3 313 668 674
Payables due to services received	179 001 153	145 631 473
Current tax liabilities	**7 717 339**	**7 555 050**
Other payables	**151 842 697**	**144 193 051**
VAT settlements	15 558 837	10 990 270
Liabilities due to purchases of assets	14 428 649	6 541 818
Liabilities due to social securities	35 407 849	28 209 330
Liabilities due to taxes and insurances	13 061 638	7 380 680
Liabilities from deposit	3 377 006	3 382 949
Option for purchase/selling the shares	54 712 448	69 189 100
Other payables	15 296 269	18 498 904
Total payables, including:	**4 100 459 280**	**3 611 048 248**
- long-term	58 148 822	72 643 362
- short-term	4 042 310 458	3 538 404 886

Trade payables also include trade payables covered by the reverse factoring agreements (with eight banks), which do not substantially change the conditions of trade payables.

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 in the total amount of PLN 54.712.448 were included in other long-term liabilities and the corresponding entry in equity.

NOTE 21.
LOANS AND BORROWINGS

Loans and borrowings are presented below:

LOANS AND CREDITS AS AT 31 DECEMBER 2017

	Credit destination	Liability amount	Interest rate	Costs for the period from 01.01.2017 to 31.12.2017
Credits				
Bank 1	Loan for financing current activity	200 000 000	WIBOR + bank's margin	10 728 181
Bank 2	Overdraft for financing of current activities	9 294 677	WIBOR + bank's margin	186 245
Bank 3	Overdraft for financing of current activities	740 247	WIBOR + bank's margin	42 782
Bank 4	Overdraft for financing of current activities	659 961	WIBOR + bank's margin	73 657
Bank 5	Overdraft for financing of current activities	6 330 602	WIBOR + bank's margin	72 534
Bank 6	Overdraft for financing of current activities	13 121 707	WIBOR + bank's margin	800 154
Bank 7	Overdraft for financing of current activities	87 633 980	WIBOR + bank's margin	1 636 965
Total loans and credits		**317 781 175**		**13 540 519**
- short-term		317 781 175		

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 31.12.2017, the limit was reached to the level PLN 200 m.

Eurocash Serwis Sp. o.o. has a flexible credit with a limit to the amount of PLN 110 m. As at 31.12.2017, the limit was reached to the level PLN 87,6 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 35.

NOTE 22.
OTHER FINANCIAL LIABILITIES

Other financial liabilities are presented below:

FINANCIAL LIABILITIES AS AT 31.12.2017

	as at 31.12.2017	as at 31.12.2016
Liabilities arising from the issue of bonds	219 533 443	161 000 000
Finance lease liabilities	10 714 936	21 375 084
Liabilities related to financing of franchisees	21 852 020	26 515 066
Valuation of hedging instruments	2 270 095	2 056 426
	254 370 494	**210 946 576**
- long-term	4 932 920	154 322 501
- short-term	249 437 574	56 624 075

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.

In addition, as at 31 December 2017, Eurocash held coupon short-term bonds with a total nominal value of PLN 80.00 million issued in 2017 under the short-term bond issue program on 20 October 2015. This program also provides the possibility to issue to a total amount of PLN 500 million. In the four quarters of 2017, Eurocash purchased short-term bonds with a total nominal value of PLN 217.8 million issued in 2016 and 2017. Liabilities under issued bonds in this program are presented in the statement of financial position of the Group in the Short-term financial liabilities.

FINANCE LEASE

FINANCE LEASE AS AT 31.12.2017

	as at 31.12.2017 minimum fees	as at 31.12.2017 present value of minimum lease payments	as at 31.12.2016 minimum fees	as at 31.12.2016 present value of minimum lease payments
Future minimum lease payments due to finance lease agreements				
Less than one year	6 163 460	5 873 595	6 599 467	5 651 550
Between one and five years	5 000 422	4 841 341	15 876 035	15 698 420
More than five years	-	-	25 658	25 115
Total future minimum lease payments due to finance lease agreements	**11 163 883**	**10 714 936**	**22 501 160**	**21 375 084**
Finance costs	448 947	X	1 126 075	X
Present value of minimum lease payments due to finance lease agreements	**10 714 936**	**10 714 936**	**21 375 084**	**21 375 084**

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 31.12.2017

	as at 31.12.2017	as at 31.12.2016
Future minimum lease payments due to operating lease agreements		
Less than one year	223 056 390	118 512 403
Between one and five years	663 784 084	386 878 905
More than five years	600 379 441	539 852 990
Total future minimum lease payments due to operating lease agreements	**1 487 219 915**	**1 045 244 297**

Operating lease payments for 2017 amounted to PLN 270.450.790 (2016: PLN 230.776.369).

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 2017

NOTE 23.
INCOME TAX

Income tax for the reporting period is presented below:

INCOME TAX FOR THE PERIOD FROM 01.01 TO 31.12.2017 (main components)

	for the period from 01.01.2017 to 31.12.2017	for the period from 01.01.2016 to 31.12.2016
Income statement		
Current income tax	(37 776 282)	(38 399 960)
Deferred tax	(12 096 098)	(7 502 053)
Total income tax	**(49 872 379)**	**(45 902 013)**

TAX RECONCILIATION FOR THE PERIOD FROM 01.01 TO 31.12.2017

	from 01.01.2017 to 31.12.2017	from 01.01.2016 to 31.12.2016
Profit before tax	**20 312 674**	**235 918 759**
Income tax calculated base on 19% income tax rate (19 % / 15 %)	(3 185 794)	(44 824 564)
Adjustment of current tax of previous years	(1 778 119)	(42 645)
Unrecognized asset from tax loss	(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	8 360 000
Other differences, including PFRON	(11 665 353)	(8 498 003)
Income tax in income statement	**(49 872 379)**	**(45 902 013)**
Effective tax rate	245,52%	19,46%

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 Company 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 Anti-Avoidance Rule (GAAR). GAAR are targeted to prevent origination and use of factitious legal structures made to avoid 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 Company 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 Company 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 2017, the Management Board of the Company has no confirmation for creating of any provisions due to these interpretations.

NOTE 24.
DEFFERED TAX

Deferred tax is presented below:

DEFERRED TAX IN THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2017

	Statement of financial position		Income statement		Statement of comprehensive income	
	as at 31.12.2017	as at 31.12.2016 restated*	for the period od 01.01.2017 do 31.12.2017	for the period od 01.01.2016 do 31.12.2016	for the period od 01.01.2017 do 31.12.2017	for the period od 01.01.2016 do 31.12.2016
Deferred tax liabilities						
- difference between tax and carrying amount of fixed assets	38 055 004	22 155 511	15 899 493	6 850 818	-	-
- not invoiced income	78 935 561	62 629 590	16 305 971	18 792 923	-	-
- revenues from accrued interests	1 089 613	937 692	151 920	128 893	-	-
- financial lease liabilities	5 964 670	553 448	5 411 222	(63 510)	-	-
- unrealized foreign exchange differences	-	10	(10)	(554)	-	-
- income from contractual penalties unpaid	1 164 663	1 028 367	136 296	228 614	-	-
- other	2 414 539	9 027 253	(6 612 713)	792 825	-	-
Gross deferred tax liabilities	**127 624 050**	**96 331 872**	**31 292 178**	**26 730 010**	**-**	**-**

DEFERRED INCOME TAX IN THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2017 (continued)

	Statement of financial position		Income statement		Statement of comprehensive income	
	as at 31.12.2017	as at 31.12.2016 restated*	for the period od 01.01.2017 do 31.12.2017	for the period od 01.01.2016 do 31.12.2016	for the period od 01.01.2017 do 31.12.2017	for the period od 01.01.2016 do 31.12.2016
Deferred tax assets						
- bonuses	12 694 612	17 595 675	4 901 063	(9 053 873)	-	-
- allowance for inventories	4 429 025	2 209 017	(2 220 008)	369 105	-	-
- allowance for bad debts	20 347 299	19 654 485	(692 815)	(2 254 467)	-	-
- Impairment loss of fixed assets	1 883 634	513 974	(1 369 660)	(7 194)	-	-
- tax losses from prior years	18 408 163	7 911 892	(10 496 271)	(1 865 748)	-	-
- holiday accrual	7 474 850	3 405 305	(4 069 546)	18 672	-	-
- accrual for employees' bonuses	3 744 853	4 043 581	298 728	(617 589)	-	-
- unpaid payroll and social securities	4 628 969	2 657 939	(1 971 030)	(329 680)	-	-
- provision for retirement benefits, disability benefits, death benefits	958 996	731 497	(227 499)	(13 654)	-	-
- provisions for legal disputes	1 474 269	2 089 162	614 893	76 129	-	-
- accruals	15 796 731	12 364 005	(3 432 726)	918 746	-	-
- finance lease liabilities	181 985	(132 656)	(314 642)	(36 408)	-	-
- difference between tax and accounting value of fixed assets and intangible assets	-	10 487 818	10 487 818	3 179 943	-	-

DEFERRED INCOME TAX IN THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2017 (continued)

	Statement of financial position		Income statement		Statement of comprehensive income	
	as at	as at	for the period	for the period	for the period	for the period
	31.12.2017	31.12.2016	od 01.01.2017 do 31.12.2017	od 01.01.2016 do 31.12.2016	od 01.01.2017 do 31.12.2017	od 01.01.2016 do 31.12.2016
Deferred tax assets		przekształcone*				
- accrued interest on trade payables	1 032 221	947 376	(84 846)	449 985	-	-
- accrued interest on loans and borrowings	-	960 929	960 929	(878 746)	-	-
- other accruals	35 454 734	23 730 118	(11 724 616)	(9 173 906)	-	-
- valuation of hedging instruments	-	390 721	-	-	390 721	1 016 518
- bonus allocated to inventories	-	144 146	144 146	(8 393)	-	-
Gross deferred tax assets	**128 510 344**	**109 704 983**	**(19 196 081)**	**(19 227 957)**	**390 721**	**1 016 518**
Allowance of deferred tax asset	-	-	-	-	-	-
Deferred tax assets	**128 510 344**	**109 704 983**	**(19 196 081)**	**(19 227 957)**	**390 721**	**1 016 518**
Deferred income tax effect			**12 096 097**	**7 502 053**	**390 721**	**1 016 518**
Net deferred tax liabilities	**25 430 471**	**33 710 961**	**X**	**X**	**X**	**X**
Net deferred tax assets	**26 316 764**	**47 084 072**	**X**	**X**	**X**	**X**

NOTE 25.
SALES IN THE REPORTING PERIOD

Sales are presented below:

SALE IN THE PERIOD FROM 01.01 TO 31.12.2017

	for the period from 01.01.2017 to 31.12.2017	for the period from 01.01.2016 to 31.12.2016
Sale of goods	21 842 339 034	19 872 981 523
Sale of services	1 423 836 472	1 341 438 313
Sales of materials	4 902 971	5 479 933
Total sale	**23 271 078 476**	**21 219 899 769**

NOTE 26.
COSTS BY TYPE

Costs by type are presented below:

COSTS BY TYPE IN THE PERIOD FROM 01.01 TO 31.12.2017

	for the period from 01.01.2017 to 31.12.2017	for the period from 01.01.2016 to 31.12.2016
Depretiation	183 317 313	166 212 492
Materials and energy	161 896 911	120 197 082
External services	1 028 091 735	859 565 570
Taxes and charges	40 975 783	33 830 433
Salaries	852 701 735	650 981 995
Social security and other benefits	171 306 480	129 943 938
Other costs by type	46 137 289	42 783 499
Costs by type	**2 484 427 245**	**2 003 515 010**
including:		
Cost of services sold	189 683 906	148 897 359
Cost of goods sold	1 922 221 341	1 532 424 939
General and administrative expenses	372 521 997	322 192 712

NOTE 27.
OTHER OPERATING INCOME AND EXPENSES

Other operating income and expenses are presented below:

OTHER OPERATING INCOME AND EXPENCES 01.01 TO 31.12.2017

	for the period from 01.01.2017 to 31.12.2017	for the period from 01.01.2016 to 31.12.2016 restated *
Other operating income	**75 180 146**	**57 334 214**
Penalties for suppliers	14 650 736	10 410 611
Other sales	6 615 407	6 754 475
Sub-lease of premises	4 063 678	7 505 379
Profit on sales of fixed assets	6 576 724	2 568 653
Compensation received	5 326 089	1 747 186
Revenus from transport services	96 336	321 809
Reversal of allowance for bad debts	1 195 368	430 829
Expired litigations and payables	2 930 952	-
Car rentals	124 817	-
Donation received	347 374	1 120 538
Reversal of provisions for closed locations	1 073 034	-
Write-off liabilities	-	10 200 000
Other (irrelevant individually)	32 179 631	16 274 734
Other operating expenses	**(158 419 741)**	**(40 553 749)**
Losses from disposals of property, plant and equipment	(2 899 645)	(2 461 550)
Allowance for bed debts	(9 299 517)	(8 373 645)
Paid penalties	(1 180 553)	(70 530)
Ligitations	(90 500)	(316 768)
Security for VAT liabilities*	(114 400 861)	-
Other (irrelevant individually)	(30 548 665)	(29 331 256)
Net other operating expenses	**(83 239 595)**	**16 780 465**

*Pt. 3

NOTE 28.
FINANCE INCOME AND COSTS

Finance income and costs are presented below:

FINANCE INCOME AND COSTS IN THE PERIOD FROM 01.01 TO 31.12.2017

	for the period from 01.01.2017 to 31.12.2017	for the period from 01.01.2016 to 31.12.2016
Finance income	**29 035 301**	**24 205 984**
Revenues from discounts	7 765 750	5 537 640
Interest	4 234 478	6 366 424
Fees for bank guarantee	-	7 589
Foreign exchange gains	560 998	93 130
Dividends	882 010	764 247
Revenues from the sale of short-term investments	5 248 005	-
Other financial income (irrelevant individually)	10 344 060	11 436 953
Finance costs	**(66 969 577)**	**(57 849 438)**
Interest	(52 174 613)	(50 800 924)
Bank fees	(5 854 066)	(5 129 689)
Foreign exchange losses	(324 355)	(816 437)
Other financial expenses (irrelevant individually)	(8 616 543)	(1 102 388)
Net finance expenses	**(37 934 276)**	**(33 643 454)**

NOTE 29.
EARNINGS PER SHARE

Earnings per share are presented below:

EARNINGS PER SHARE FOR THE PERIOD FROM 01.01 TO 31.12.2017

	for the period from 01.01.2017 to 31.12.2017	for the period from 01.01.2016 to 31.12.2016
Earnings		
Profit (loss) for the period attributable to the Owners of the Company	(33 311 574)	179 221 629
Number of issued shares		
Weighted average number of shares	139 158 564	139 023 791
Dilution efect of potential number of shares:		
Convertible bonds	-	97 197
Weighted average number of shares (to calculate diluted earnings per share)	139 158 564	139 120 988
Earnings per share		
- basic	(0,24)	1,29
- diluted	(0,24)	1,29

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 30.
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 31.12.2017

	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**

REMUNERATION OF MEMBERS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD OF THE PARENT IN THE PERIOD FROM 01.01 TO 31.12.2016

	Basic salary	Other benefits	Managerial optoins	Total
Remuneration of the Members of the Management Board				
Luis Amaral	480 000	255 301	-	735 301
Rui Amaral	1 320 000	18 833	-	1 338 833
Arnaldo Guerreiro	1 020 000	30 478	-	1 050 478
Pedro Martinho	1 200 000	30 793	-	1 230 793
Katarzyna Kopaczewska	960 000	22 027	-	982 027
Jacek Owczarek	1 000 000	30 478	-	1 030 478
David Boner	2 040 000	62 422	-	2 102 422
	8 020 000	**450 332**	**-**	**8 470 332**
Remuneration of the Members of the Supervisory Board				
Joao Borges de Assuncao	207 971	-	-	207 971
Eduardo Aguinaga de Moraes	192 355	-	-	192 355
Francisco José Valente Hipólito dos Santos	192 355	-	-	192 355
Hans Joachim Körber	192 355	-	-	192 355
Jacek Szwajcowski	182 201	-	-	182 201
	967 237	**-**	**-**	**967 237**

NOTE 31.
EMPLOYMENT

Number of employees as at 31.12.2017 is presented below:

NUMBER OF EMPLOYEES AS AT 31.12.2017

	as at 31.12.2017	as at 31.12.2016
Number of employees	17 664	14 817
Number of full-time jobs	17 478	14 632

Employment structure as at 31.12.2017 is presented below:

EMPLOYMENT STRUCTURE AS AT 31.12.2017

	Wholesale discounts and distribution centres	Head office	Total
Number of employees	15 540	2 124	**17 664**
Number of full-time jobs	15 378	2 100	**17 478**

Data concerning employee turnover ratios as at 31.12.2017 is presented below:

EMPLOYEE TURNOVER IN THE PERIOD FROM 01.01 TO 31.12.2017

	for the period from 01.01.2017 to 31.12.2017	for the period from 01.01.2016 to 31.12.2016
Acquisitions	2 872	3 046
Number of hired employees	4 757	4 086
Number of dismissed employees	(4 782)	(3 937)
	2 847	**3 195**

NOTE 32.
DATA OF ITEMS NOT INCLUDED IN THE FINANCIAL STATEMENTS

CONTINGENTIES AS AT 31.12.2017

	Beneficiary	Title	Currency	as at 31.12.2017	as at 31.12.2016
1.	Bank 1 *	Surety for the obligations due to the "Franchise partners financing program" for the Franchisee Delkatesy Centrum	PLN	7 653 291	12 280 125
				7 653 291	**12 280 125**

* debt value as at balance sheet date

OTHER BANK GUARANTEES AS AT 31.12.2017

	The Issuer	Title	Currency	as at 31.12.2017	as at 31.12.2016
1	Bank 1	Security payments to suppliers	PLN	16 000 000	37 500
2	Bank 2	Security for agency agreement	PLN	200 000	500 000
3	Bank 3	Security for rent liabilities	PLN	6 986 764	6 796 675
4	Bank 4	Security for rent liabilities	PLN*	28 627 184	24 801 131
5	Bank 5	Security for excise duty	PLN	2 700 000	2 100 000
6	Bank 6	Surety of the bank guarantee for Generalna Dyrekcja Dróg i Autostrad	PLN	620 100	620 100
7	Bank 7	The liabilities of the promotion lottery	PLN	457 889	523 659
8	Bank 8	Security payments to suppliers	PLN	113 219 000	72 230 000
9	Bank 9	Security payments to suppliers	PLN	4 170 900	-
				172 981 837	**107 609 065**

* Converted at an average rate of NBP as at 31 December 2017 1 EUR 4,1709 PLN; as at 31 December 2016 1 EUR 4,4240 PLN.

NOTE 33.
COLLATERALS

SECURITY ON ASSETS AS AT 31.12.2017

Title	Secured property	Amount secure in PLN
Security on the credit line agreement *	Deposit on inventories Eurocash S.A.	90 000 000
Guarantee on securing the payment for suppliers*	Deposit on inventories Eurocash Serwis Sp. z o.o.	80 000 000
Security on the credit line agreement *	Deposit on inventories Eurocash S.A.	88 000 000
Security on the consolidated loan agreement to the amount 700.000.000 PLN *	Deposit on inventories Eurocash Serwis Sp. z o.o.	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
Financial leasing agreements (due to net value of fixed assets at the balance sheet date)	Ownership of fixed assets in financial leasing	3 971 837
		275 319 137

* Nominal value of the minimum security

NOTE 34.
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 31.12.2017	as at 31.12.2016
Receivable and loans	1 831 408 822	1 841 471 280
Cash and cash equivalents *	193 392 519	158 138 835
	2 024 801 341	**1 999 610 114**

* 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 31.12.2017

	Trade receivables gross as at 31.12.2017	Bad debts allowance as at 31.12.2017	Trade receivables gross as at 31.12.2016	Bad debts allowance as at 31.12.2016
current	1 302 907 743		1 437 616 524	-
0-30 days	248 563 984		201 369 415	-
31-90 days	98 375 890		74 407 905	284 504
91-180 days	25 505 065		26 175 736	5 972
> 180 days	68 355 582	60 866 973	69 613 274	60 708 492
	1 743 708 264	**60 866 973**	**1 809 182 853**	**60 998 968**

ALLOWANCE FOR BAD DEBTS AS AT 31.12.2017

	for the period from 01.01.2017 to 31.12.2017	for the period from 01.01.2016 to 31.12.2016
Opening balance	60 998 968	54 982 431
Increases*	-	6 016 536
Decreases*	(131 995)	-
Closing balance	**60 866 973**	**60 998 968**

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 200 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 31.12.2016. the limit limit was reached to the amount of PLN 66.7 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.

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 2017	Net book value	< 12 months	1-5 years	> 5 years
Financial 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	-
Loans and borrowings	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**	**-**

AS AT 31 DECEMBER 2016	Net book value	< 12 months	1-5 years	> 5 years
Finance lease liabilities	21 375 084	5 651 550	15 698 420	25 115
Liabilities due to financing of franchisees	26 515 066	26 515 066		
Trade and other payables	3 556 912 919	3 484 269 556	72 643 362	
Other finance liabilities	2 056 426	870 532	1 185 894	
Short-term loans and credits	275 065 340	275 065 340		
The issuance of debt securities	161 000 000	21 000 000	140 000 000	
	4 042 924 835	**3 813 372 044**	**229 527 676**	**25 115**

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 2017, as well as in 2016, 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 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**

31 December 2016

	< 1 year	2-5 years	> 5 years	Total
Finance lease liabilities	5 651 550	15 698 420	25 115	**21 375 084**
Credits and loans	275 065 340	-	-	**275 065 340**

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 31.12.2017	Present value 31.12.2016
Fixed interest rate instruments		
Financial liabilities	10 714 936	21 375 085
Variable interest rate instrument		
Financial assets	2 034 009 171	2 003 342 383
Financial liabilities	4 590 150 350	4 021 549 750

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 2016.

SENSITIVITY ANALYSIS OF FINANCIAL INSTRUMENTS

	Income statement		Equity	
	increases 100bp	decreases 100bp	increases 100bp	dereases 100bp
31 December 2017	(25 561 412)	25 561 412	-	-
31 December 2016	(20 182 074)	20 182 074	-	-

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, 2017, 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 liabilities, credits, loans and finance lease liabilities does not differ from the carrying amounts.

NOTE 35.

OTHER SUBSEQUENT EVENTS

1. **Acquisition of 100% shares in EKO Holding S.A.**

On 4 January 4, Eurocash acquired 100% of shares in EKO Holding S.A. based in Nowa Wieś Wrocławska for PLN 127 million (and indirectly 100% shares in Ledi Sp. z o.o. and Jim Sp. z o.o.).
Thus, Eurocash acquired a network of EKO grocery stores (operating mainly in south-western Poland), which will allow further development of the Eurocash Group and better use of its potential. Consequently, this should affect an increase in Eurocash Group revenues.

2. **Choice of an entity authorized 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 2017.

3. **Preliminary agreement to acquire entities controlling the MILA chain of stores**

On 15th September 2017, Eurocash concluded the Preliminary Agreement with Argus Retail Holding Limited (company under Cypriot law), non-public closed-end investment fund Elbrus with its registered office in Warsaw, Robert Załęski, Robert Kasner and Stanisław Sosnowski of purchasing 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 ograniczoną odpowiedzialnością sp.j.), Investpol 700 Mila spółka jawna and "Koja-Mila spółka akcyjna" spółka jawna.

Value of the transaction was settled on PLN 350 m, excluding some real estate which will not be taken over by Eurocash.

Concluding the final agreement is subject to the conditions precedent agreed in the Preliminary Agreement, in particular to obtain by Eurocash the consent of the President of the Office of Competition and Consumer Protection.

At the end of 2016 the Mila Supermarket chain was consisted of 188 stores. Sales revenue reached PLN 1,49 bn, EBITDA reached PLN 4,8 m. The acquisition of the Mila chain is with accordance to Eurocash M&A policy. Similar to take over of EKO chain it will enable Eurocash Group to develop competences in retail sales and logistics capacities, following improvement of the competitiveness of Eurocash Group's clients and as a consequence the potential increase in revenues of Eurocash Group. For these reasons, the Issuer considered the conclusion of the Preliminary Agreement as confidential information.

NOTE 36.

IMPORTANT EVENTS AFTER THE PERIOD COVERED BY THE FINANCIAL STATEMENTS

There were no significant events after the period covered by the financial statements, influencing the activity if the Group.

Position	Name and surname	Date	Signature
President of the Management Board	Luis Amaral	22nd March 2018	
Member of the Management Board Chief Executive Officer	Rui Amaral	22nd March 2018	
Member of the Management Board	Arnaldo Guerreiro	22nd March 2018	
Member of the Management Board	Pedro Martinho	22nd March 2018	
Member of the Management Board Human Resources Director	Katarzyna Kopaczewska	22nd March 2018	
Member of the Management Board Financial Director	Jacek Owczarek	22nd March 2018	
Member of the Management Board	Przemysław Ciaś	22nd March 2018	