



**EUROCASH**

**SEPARATE ANNUAL REPORT  
FOR THE 2018**

**TRANSLATORS' EXPLANATORY NOTE**

The following document is a free translation of the report of the above-mentioned Polish Company.

In the event of any discrepancy in interpreting the terminology, the Polish version is binding.

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**EUROCASH S.A.**

**REPORT OF THE MANAGEMENT BOARD**  
FOR THE PERIOD FROM 1 JANUARY 2018 TO 31 DECEMBER 2018

**NOTE FROM TRANSLATOR**

This document is a translation from Polish.

The Polish original is the binding version and shall be referred to in matters of interpretation.

**KOMORNIKI, 15 March 2019**

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## LETTER FROM THE PRESIDENT

Dear Shareholders, Partners, Employees, Customers

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



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

Eurocash.pl is one of them, but it is also a completely new business concept. With it, entrepreneurs are able to adapt their offering to the needs of local consumers. They are able to quickly check the characteristics of residents in a given area. Additionally, thanks to this platform and a mobile app, they can increase their store's cost effectiveness, which ultimately translates into more time devoted to customers. In 2018, the eurocash.pl platform was used mostly by the customer of Eurocash Dystrybucja. Soon, all of Eurocash Group's customers will have access to it. With it, this market, which is often described as traditional, becomes one of the most digitised in the world.

Looking at Eurocash's results, I am at ease. I see how our company is developing in many areas. I see diversification, for example at the business level, where our companies are at various development stages. They are managed by both experienced managers with years of expertise as

well as young, ambitious and creative 20-something-year-olds. They are managed by both women and men, those who came up through the ranks at Eurocash and those who just joined us.

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

The retail business is in an entirely different place. In a rather short time, we built up the scale of our small supermarket chain, under the Delikatesy Centrum brand, to more than 1 500 stores. The chain we are developing today is nationwide and it is the largest supermarket chain in the country, with approx. PLN 7.4 billion in total retail sales. At this point, we are in the process of integrating and merging three independently operating companies, which will continue in 2019, but I am certain that we are heading in the right direction. This integration will result in short-term pressure on the retail business's profitability but we have to do this precisely so as to deliver a credible offering to our consumers and be ready for further expansion, together with our franchisees.

The retail business is also an excellent tool for support of independent entrepreneurs in Poland. Thanks to it, we have created a fresh product delivery project, with daily deliveries to stores before 11 a.m.. This is how product quality has significantly improved. Moreover, this project will eventually be available to all customers of Eurocash Group's wholesale segment. Another solution just developed at Delikatesy Centrum is an AI-supported customer relationship management system, "Delikarta," which we want to eventually deploy at stores operated by all of Eurocash Group's customers, under the name chosen by them.

2018 was also a year of further development of four projects. Following the success of Faktoria Win, PayUp and the fresh product delivery project, we see that taking risk is worth it. Thanks to these solutions, our customers increase their competitiveness, while running a retail business is becoming more attractive to young people. Duży Ben, Kontigo, abc on wheels are currently at a further stage of development as part of franchise systems. Thanks to them, local entrepreneurs can freely diversify their businesses. I believe that these projects, like those before them, will also reach the break-even point in the near future. However, at this point further development in new regions is the most important goal.

We are taking risk, we are developing and we are investing, we are looking at the market from a long-term perspective, which is still underappreciated by many. We are changing its image. However, what is the most important is that we are able to do that while maintaining the Group's stable financial position. During the year, we acquired Mila, paid a dividend and continued investing in logistics, IT systems and renovations at our locations. Despite these expenditures and investments, we ended the year with debt at a level similar to last year's. What is more, we are developing financial instruments that support the financial liquidity of our counterparties, customers and suppliers. Although

we did not improve our profitability this year by much, I am certain that both we and our customers are in a much better competitive position than a year ago.

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

Sincerely

Luis Amaral

President of the Eurocash Group



## 1. SUMMARY OF EUROCASH OPERATIONS IN 2018

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

PLN m	2018	2017	Change %
Sales revenues (traded goods, materials)	14 775,94	13 658,04	8,18%
Gross profit (loss) on sales	1 749,58	1 544,36	13,29%
Gross profitability on sales (%)	11,84%	11,31%	0,53 p.p.
EBITDA	294,40	92,12	219,58%
(EBITDA margin %)	1,99%	0,67%	1,32 p.p.
EBIT	178,66	(22,01)	-911,74%
(EBIT margin %)	1,21%	-0,16%	1,37 p.p.
Gross profit	194,01	(29,75)	-752,22%
Net Income	149,62	(71,71)	-308,64%
(Net profitability %)	1,01%	-0,53%	1,54 p.p.

PLN m	2018	2017	Change %
Sales revenues (traded goods, materials)	<b>14 775,94</b>	<b>13 658,04</b>	<b>8,18%</b>
Gross profit (loss) on sales	1 749,58	1 544,36	13,29%
Gross profitability on sales (%)	11,84%	11,31%	0,53 p.p.
<b>EBITDA normalized*</b>	<b>249,65</b>	<b>206,52</b>	<b>20,88%</b>
(Normalized EBITDA margin %)	1,69%	1,51%	0,18 p.p.
<b>One-off items</b>	<b>44,75</b>	<b>-114,40</b>	
<i>PayUp disposal</i>	74,76		
<i>Provision on restructuring costs</i>	-27,00		
<i>Costs of Mila process</i>	-3,01		
<i>Cost of potential Vat liabilities</i>		-114,40	
EBITDA reported	294,40	92,12	219,58%
(Reported EBITDA margin %)	1,99%	0,67%	1,32 p.p.
<b>EBIT normalized*</b>	<b>133,91</b>	<b>92,39</b>	<b>44,94%</b>
EBIT reported	178,66	(22,01)	-911,74%
(Normalized EBIT margin %)	0,91%	0,68%	0,23 p.p.
(Reported EBIT margin %)	1,21%	-0,16%	1,37 p.p.
Gross profit normalized*	<b>149,26</b>	<b>84,65</b>	<b>76,31%</b>
Gross profit reported	194,01	(29,75)	-752,22%
<b>Net profit normalized*</b>	<b>104,87</b>	<b>42,69</b>	<b>146%</b>
<b>Net profit reported</b>	<b>149,62</b>	<b>(71,71)</b>	<b>-308,64%</b>
Net profit reported	1,01%	-0,53%	1,54 p.p.

\* excluding impact of the one-offs

Eurocash Sales in 2018 reached PLN 14 775.94 million, EBITDA normalized amounted to PLN 249.65 m, and net profit normalized of PLN 104.87 million. In contrast, for the year ended 31 December 2017 Eurocash achieved sales revenues of PLN 13 658.04 m, EBITDA normalized amounted to PLN 206.52 m, and a net profit normalized of PLN 42.69 m. There are no significant risks in the current and projected financial situation of Eurocash S.A.

Number of Eurocash Cash&Carry stores at the end of 2017 amounted to 180 outlets. Number of abc loyalty scheme stores amounted to 8 708. The number of small supermarkets increased to the level of 1 539, including 1 328 operating under the Delikatesy Centrum brand.

## 2. EUROCASH GROUP BUSINESS OVERVIEW

### 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: Eurocash: Macroeconomic situation in Poland**

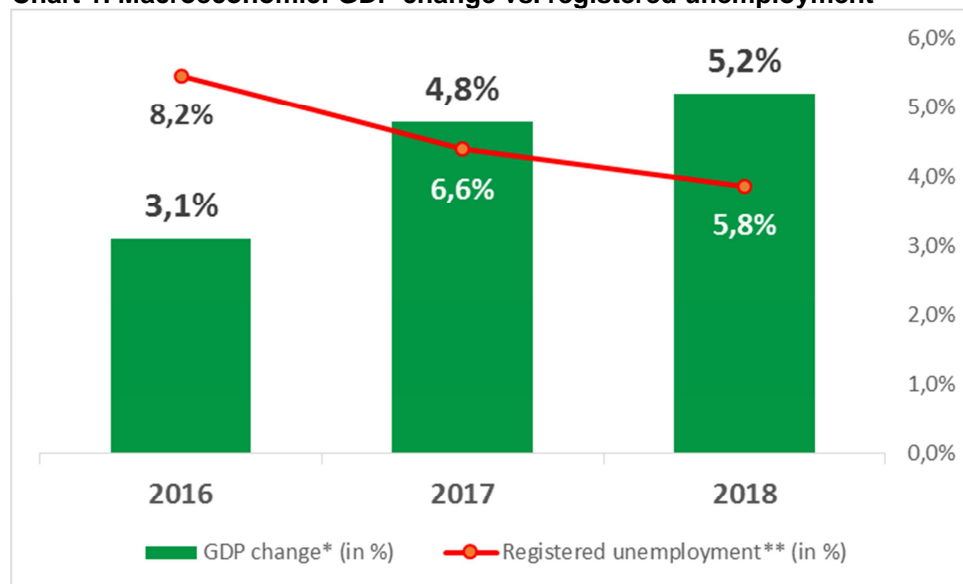
	2018 r.	2017 r.	2016 r.
GDP change* (in %)	5,2	4,8	3,1
Registered unemployment** (in %)	5,8	6,6	8,2
Wage dynamics in Poland (in%) nominally	7,0	5,7	3,7
Consumer price index change (in %)	1,6	2,0	-0,6

Source: Central Statistical Office

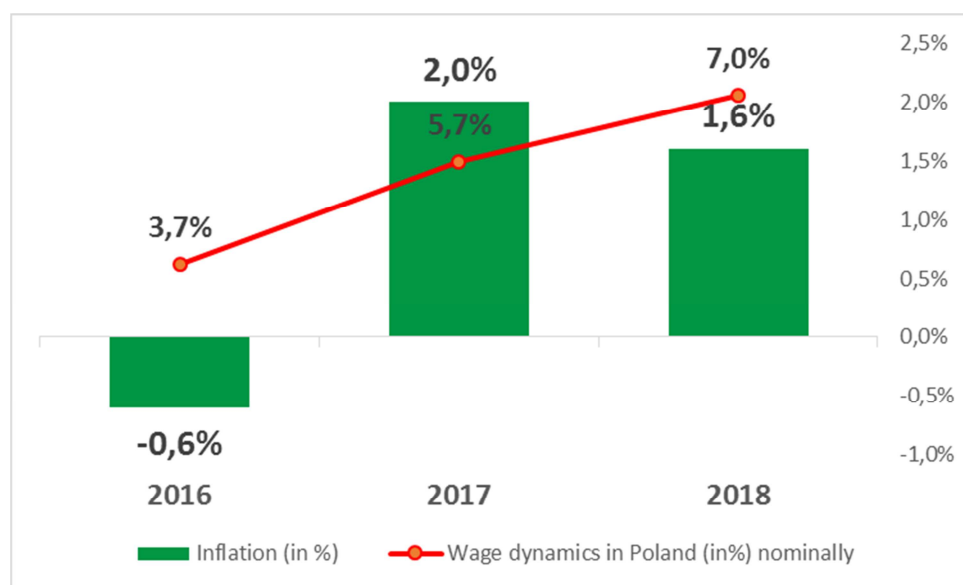
\* Preliminary data (for the first three quarters 2018)

\*\* As at year end

**Chart 1. Macroeconomic: GDP change vs. registered unemployment**



**Chart 2. Macroeconomic: Inflation vs. Wage dynamics in Poland (nominally)**



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

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

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

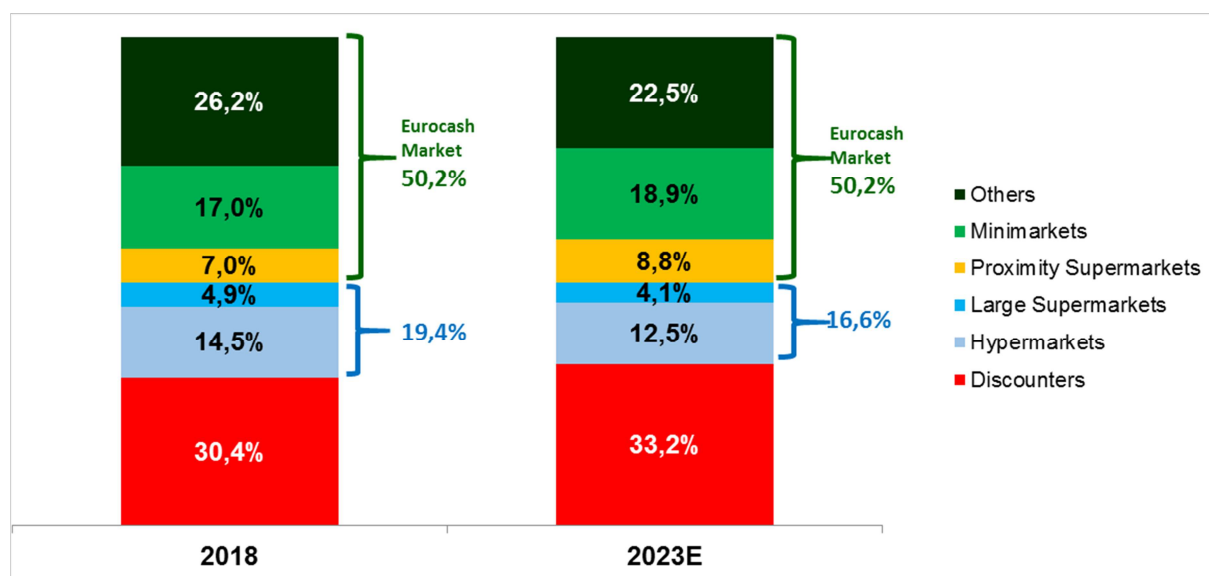
At the end of December 2018, the registered unemployment rate in the country improved comparing to the previous year and amounted to 5.8%.

#### ***Polish FMCG market - general information***

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

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

**Chart 3. Structure of the FMCG market in Poland\***

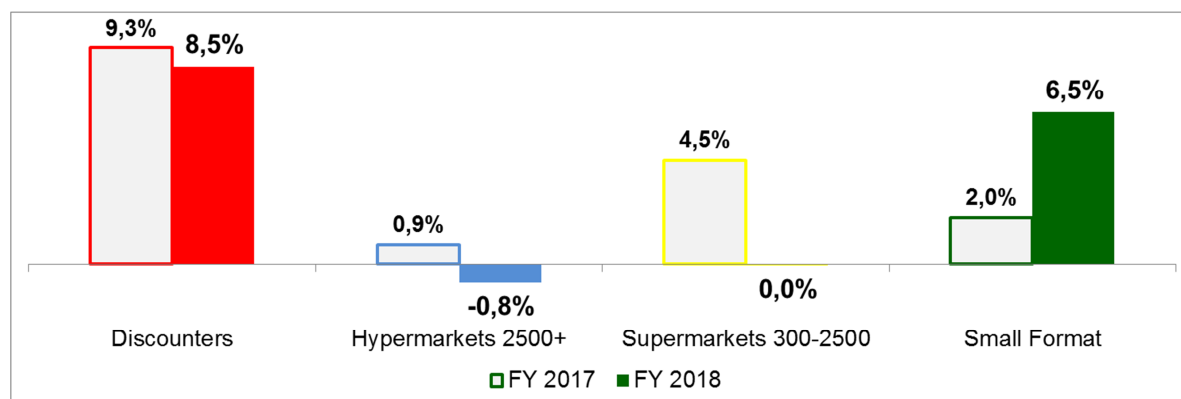


Source: [www.retailytics.com](http://www.retailytics.com)

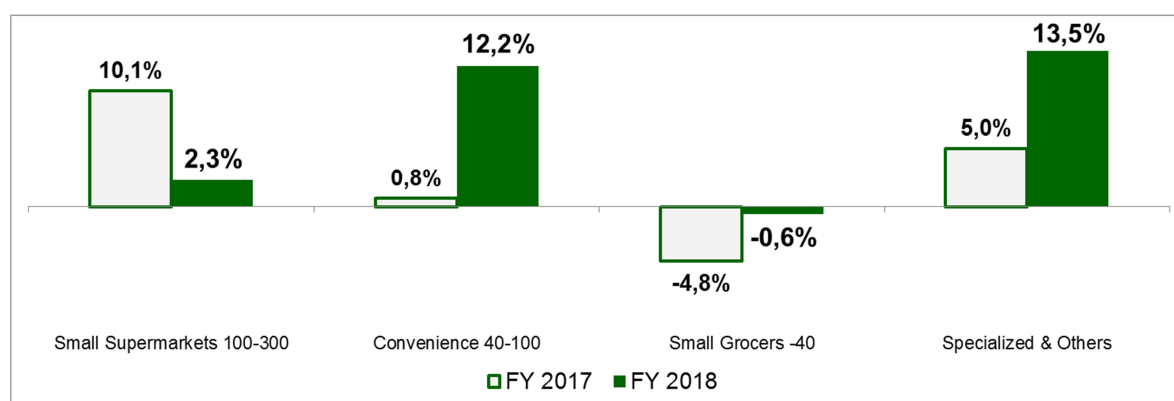
According to the data prepared by retailytics, the total share of the value of large format stores in the coming years will decrease in favor of discount chains. Currently, the share of large format (excluding discounters) is at the level of 19.4%, however it is estimated that by 2023 it will fall to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

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

**Chart 4. Sales dynamics on the food market by distribution channels**



**Chart 5. Sales dynamics on the food market in small-format stores**



Source: Own study based on data from the Nielsen

\* LTM Dec 2017 = from December 2017 to December 2018

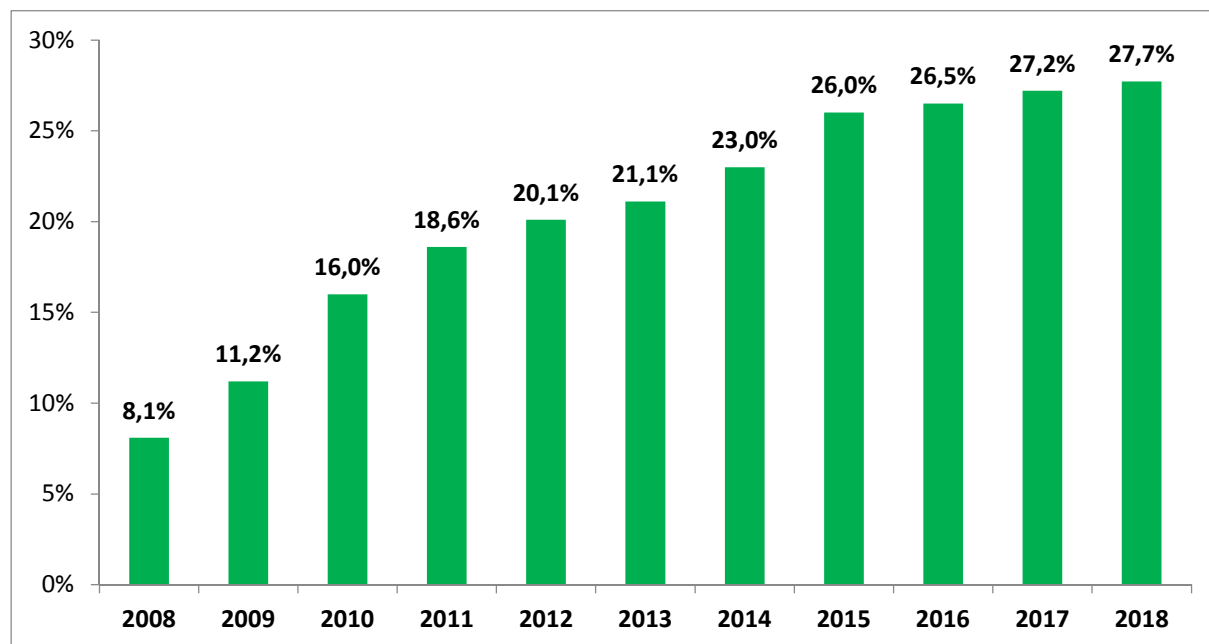
\*\* Small Supermarkets, Convenience, Small Grocers – Food sales dynamics

### **Wholesale distribution of FMCG Market**

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

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

**Chart 6. Market share of Eurocash Group during 2008-2018**



Source: Own estimates

### ***Trends on the Polish FMCG Market***

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

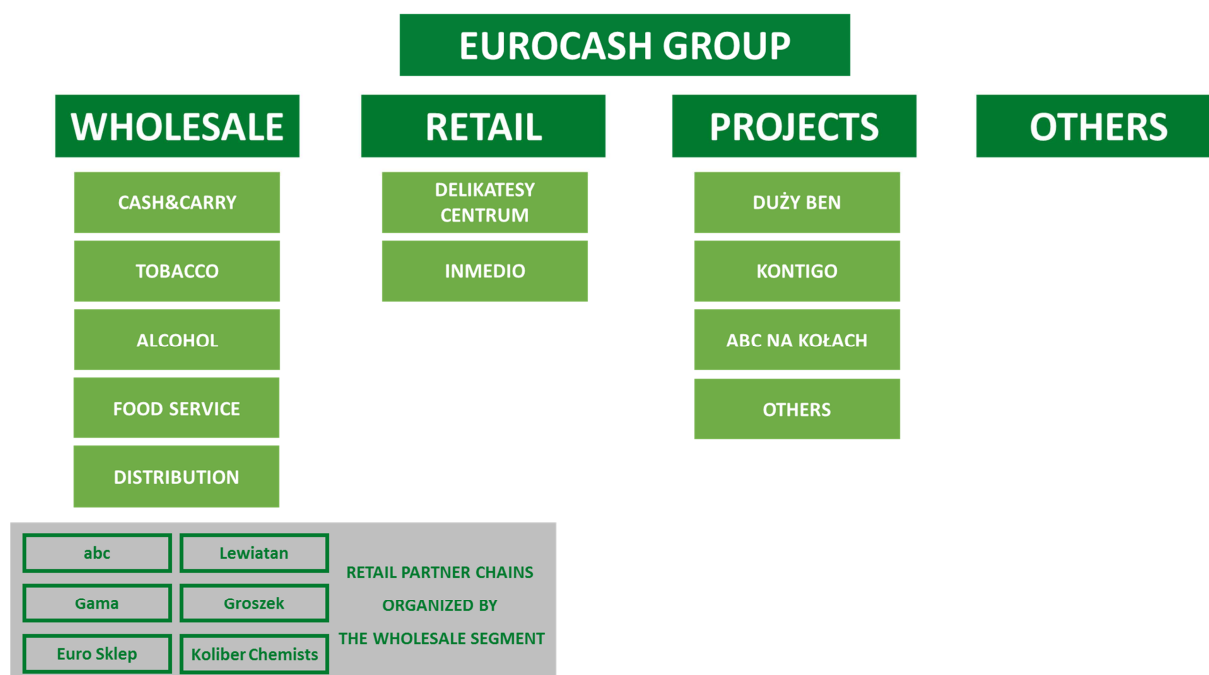
After rapid consolidation of the FMCG wholesale distribution market has observed in years 1991-2000, the last decade saw a reduction in the number of wholesale businesses involved in the sales of FMCG products down to approximately 3 000 - 4 000 entities, which number remains stable.

### **2.2. Eurocash Group: Business Formats**

The Eurocash Group is the largest Polish company dealing in wholesale distribution of food products and marketing support for independent Polish entrepreneurs conducting retail operations. The

franchise and partner networks supported by Eurocash associate over 15,000 independent stores operating under such brands as abc, Groszek, Delikatesy Centrum, Lewiatan, Euro Sklep or Gama. Through a range of distribution formats, the Eurocash Group focuses its business activities on the wholesale distribution to customers across all significant wholesale market segments, in particular, to small format stores throughout Poland such as traditional retail stores (small supermarkets and grocery stores), convenience stores at petrol stations, restaurants, hotels and cafeterias.

**Chart 7. Eurocash Group: Focused on small format stores**



Source: Own study

### 2.3. Number of outlets

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

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



**Table 3: Number of Cash & Carry Warehouses, small supermarkets including Delikatesy Centrum stores, 'abc' network, Inmedio newsagents and franchise stores**

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

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

Source: Eurocash

## 2.4. Sales Structure

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

## 2.5. Structure of the Eurocash Capital Group

Luis Amaral is the main shareholder of Eurocash (directly and indirectly through Politra B.V. s.a.r.l.), with the shareholding of 44.04% as at 31.12.2018. Luis Amaral serves as President of the Management Board.

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

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

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

**Chart 8. The structure of the Eurocash Group and its affiliated companies as at December 31, 2018**

<div> <div>Luis Amaral (through Politra B.V. s.a.r.l.) 44,0%</div> <div>EUROCASH S.A.</div> </div>			
Wholesale	Franchise systems (Wholesale)	Retail	Other
75% Eurocash Serwis Sp. z o.o.	66,6% Lewiatan Holding S.A.	51% Inmedio Sp. z o.o.	44,03% Frisco S.A.
100% DEF Sp. z o.o.	100% Lewiatan Podkarpacie Sp. z o.o.	100% Eurocash Franczyza Sp. z o.o.	100% Eurocash Trade 1 Sp. z o.o.
100% AMBRA Sp. z o.o.	100% Lewiatan Północ Sp. z o.o.	50% Firma Rogala Sp. z o.o.	100% Eurocash Trade 2 Sp. z o.o.
100% Polska Dystrybucja Alkoholi Sp. z o.o.	100% Lewiatan Kujawy Sp. z o.o.	50% FHC-2 Sp. z o.o.	100% Premium Distributors Sp. z o.o.
100% ECA Detal Sp. z o.o.	100% Lewiatan Wielkopolska Sp. z o.o.	50% Madas Sp. z o.o.	100% Przedsiębiorstwo Handlu Spożywczego Sp. z o.o.
66% Zagłoba Sp. z o.o.	100% Lewiatan Opole Sp. z o.o.	100% EKO Holding S.A.	100% Eurocash VC3 Sp. z o.o.
100% Cerville Investments Sp. z o.o.	100% Lewiatan Orbita Sp. z o.o.	100% Ledi Sp. z o.o.	100% Eurocash Nieruchomości Sp. z o.o.
<i>Projekty</i>	100% Lewiatan Zachód Sp. z o.o.	100% Jim Sp. z o.o.	100% Detal Finanse Sp. z o.o.
100% Eurocash Detal Sp. z o.o.	100% Lewiatan Podlasie Sp. z o.o.	100% Mila S.A.	100% Akademia Umiejętności Eurocash Sp. z o.o.
100% Kontigo Sp. z o.o.	100% Lewiatan Śląsk Sp. z o.o.	100% Investpol 700 Mila spółka akcyjna sp.j.	100% EC VC7 Sp. z o.o.
100% Duży Ben Sp. zo.o.	100% Detal Podlasie Sp. z o.o.	100% Mila Holding S.A.	
100% ABC na kołach Sp. z o.o.	100% EURO SKLEP S.A.	100% "Koja-Mila Spółka Akcyjna" Sp. j.	
100% Eurocash Food Sp. z o.o.	50% Partnerski Serwis Detaliczny S.A.	100% Domelius Limited	
51% Sushi To Go Sp. z o.o.	100% Groszek sp. z o.o.		
51% Sushi 2 Go sp. z o.o.	100% ABC sp. z o.o.		
100% 4Vapers Sp. z o.o.			
100% Eurocash Convenience Sp. z o.o.			
50% Foodmakers Logistics Sp. z o.o.			

### 3. EUROCASH DEVELOPMENT PROSPECTS

#### 3.1. Eurocash Development Strategy

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

The Group implements its strategy through:

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

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

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

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

One of the tools made available to all Eurocash Group clients so far is the Eurocash Academy - an educational platform that gives independent entrepreneurs knowledge to which employees of large format competition do not have access. Another solution developed today on the basis of the Delikatesy Centrum chain is platform for fresh products distribution, which at first stage will be also

available to franchisees and partners associated in chains cooperating with Eurocash Distribution format. Next tool, a Customer Relationship Management System based on the mechanisms developed at Delikatesy Centrum (Delikarta) will be available to all wholesale clients. Ultimately, the customers of Eurocash Group will be able to take advantage from solutions invented on Frisco.pl's experience (e-grocery store).

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

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

### **3.2. Factors impacting Development of Eurocash**

#### ***External Factors***

##### *Growth in the FMCG market and changes in market structure*

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

##### *Fuel prices*

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

##### *Inflation*

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

##### *Payroll costs*

A potential stress on payroll costs may have an adverse effect on the Group's performance in the medium term perspective. However, a prospective increase in remuneration levels has an effect on

the entire Polish market. As the Group sales are realized in Poland, its competitive position should remain unchanged due to this influence.

## **Internal Factors**

### *Integration of acquired companies*

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

### *Development of Eurocash Retail segment*

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

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

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

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

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

### *Investment in strategical growth projects*

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

### *Cost optimization program*

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

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

## **3.3. Risks and Threats**

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

### ***External Factors***

#### *Macroeconomic situation. Purchasing power of the population*

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

#### *Structure of FMCG retail distribution market in Poland*

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

Eurocash. Growth in the share of modern distribution will shrink a prospective market for the Eurocash Group's business.

#### *Structure of the traditional FMCG distribution channel. Competition*

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

#### **Internal Factors**

##### *IT systems*

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

##### *New investments*

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

##### *Suppliers*

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

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

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

### **3.4. Note on seasonality**

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



#### 4. MANAGEMENT DISCUSSION OF EUROCASH FINANCIAL PERFORMANCE FOR 2018

##### 4.1. Principles applied in the preparation of annual consolidated financial statements

The separate 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 separate financial statement of Eurocash S.A. for the FY2018 and was applied to all periods presented in the financial statement.

##### 4.2. Eurocash: Financial and Operational Highlights

**Table 3: Eurocash: Highlights of 2018 financial performance**

	2018	2018	Change %
PLN m			
Sales revenues (traded goods, materials)	14 775,94	13 658,04	8,18%
EBITDA normalized*	249,65	206,52	20,88%
Gross profit normalized*	149,26	84,65	76,31%
Net profit normalized*	104,87	42,69	146%

*\*excluding impact of the one-offs*

Eurocash Sales in 2018 reached PLN 14 775.94 million, EBITDA normalized amounted to PLN 249.65 m, net profit normalized of PLN 104.87 million. In contrast, for the year ended 31 December 2017 Eurocash achieved sales revenues of PLN 13 658.04 million, EBITDA normalized amounted to PLN 206.52 m, and net profit normalized of PLN 42.69 million. There are no significant risks in the current and projected financial situation of Eurocash S.A.

### 4.3. Profit and Loss Account

#### Profitability Analysis

**Table 4: Eurocash: Summary of 2018 Financial Performance**

	2018	2017	Change %
PLN m			
Sales revenues (traded goods, materials)	14 775,94	13 658,04	8,18%
Gross profit (loss) on sales	1 749,58	1 544,36	13,29%
Gross profitability on sales (%)	11,84%	11,31%	0,53 p.p.
EBITDA	294,40	92,12	219,58%
(EBITDA margin %)	1,99%	0,67%	1,32 p.p.
EBIT	178,66	(22,01)	-911,74%
(EBIT margin %)	1,21%	-0,16%	1,37 p.p.
Gross profit	194,01	(29,75)	-752,22%
Net Income	149,62	(71,71)	-308,64%
(Net profitability %)	1,01%	-0,53%	1,54 p.p.

PLN m	2018	2017	Change %
Sales revenues (traded goods, materials)	<b>14 775,94</b>	<b>13 658,04</b>	<b>8,18%</b>
Gross profit (loss) on sales	1 749,58	1 544,36	13,29%
Gross profitability on sales (%)	11,84%	11,31%	0,53 p.p.
<b>EBITDA normalized*</b>	<b>249,65</b>	<b>206,52</b>	<b>20,88%</b>
(Normalized EBITDA margin %)	1,69%	1,51%	0,18 p.p.
<b>One-off items</b>	44,75	-114,40	
PayUp disposal	74,76		
Provision on restructuring costs	-27,00		
Costs of Mila process	-3,01		
Cost of potential Vat liabilities		-114,40	
EBITDA reported	294,40	92,12	219,58%
(Reported EBITDA margin %)	1,99%	0,67%	1,32 p.p.
<b>EBIT normalized*</b>	<b>133,91</b>	<b>92,39</b>	<b>44,94%</b>
EBIT reported	178,66	(22,01)	-911,74%
(Normalized EBIT margin %)	0,91%	0,68%	0,23 p.p.
(Reported EBIT margin %)	1,21%	-0,16%	1,37 p.p.
Gross profit normalized*	<b>149,26</b>	<b>84,65</b>	<b>76,31%</b>
Gross profit reported	194,01	(29,75)	-752,22%
<b>Net profit normalized*</b>	<b>104,87</b>	<b>42,69</b>	<b>146%</b>
<b>Net profit reported</b>	149,62	(71,71)	-308,64%
Net profit reported	1,01%	-0,53%	1,54 p.p.

\* excluding impact of the one-offs

The unit gross sales margin in 2018 amounted to 11.84%, by 0.53 pp. more than in 2017, EBITDA normalized increased to PLN 249.65 million in 2018 from PLN 206.52 million in 2017. The normalized EBITDA margin increased in the year 2018 by 0.18. and amounted to 1.69%. Normalized net income amounted to PLN 104.87 million in 2018, compared to PLN 42.69 million in 2017.

#### 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 on the next page:

**Table 5: Eurocash: Mix of Assets**

	PLN m	31.12.2018	%	31.12.2017	%
<b>Fixed assets (long-term)</b>		<b>3 222,63</b>	<b>60,18%</b>	<b>2 901,78</b>	<b>54,51%</b>
Goodwill		862,82	16,11%	862,82	16,21%
Other intangible fixed assets		523,06	9,77%	537,90	10,11%
Tangible fixed assets		447,77	8,36%	460,89	8,66%
Investment in properties		0,96	0,02%	0,97	0,02%
Investments in subsidiary companies		1 291,45	24,12%	953,27	17,91%
Investments in associated companies - equity method		40,59	0,76%	40,59	0,76%
Other long-term financial assets		45,93	0,86%	42,29	0,79%
Long-term receivables		9,30	0,17%	2,01	0,04%
Long-term prepayments		0,76	0,01%	1,04	0,02%
<b>Current assets (short-term)</b>		<b>2 132,31</b>	<b>39,82%</b>	<b>2 421,16</b>	<b>45,49%</b>
Inventories		851,06	15,89%	888,69	16,70%
Trade receivables		1 083,19	20,23%	1 258,48	23,64%
Current income tax receivables		-	0,00%	18,66	0,35%
Other short-term receivables		66,79	1,25%	58,72	1,10%
Other short-term financial assets		3,41	0,06%	51,34	0,96%
Short-term prepayments		98,09	1,83%	29,59	0,56%
Cash and cash equivalents		29,77	0,56%	115,68	2,17%
<b>Total assets</b>		<b>5 354,94</b>	<b>100,00%</b>	<b>5 322,94</b>	<b>100,00%</b>

**Table 6: Eurocash: Mix of Liabilities**

PLN m	31.12.2018	%	31.12.2017	%
<b>Equity</b>	<b>1 050,87</b>	<b>19,62%</b>	<b>998,11</b>	<b>18,75%</b>
Share capital	139,16	2,60%	139,16	2,61%
Supplementary capital	680,20	12,70%	847,62	15,92%
Hedge transactions valuation capital	(7,64)	-0,14%	(6,48)	-0,12%
Option for purchase/selling the shares	-	0,00%	-	0,00%
Retained earnings	239,14	4,47%	17,81	0,33%
<b>Long-term liabilities</b>	<b>74,39</b>	<b>1,39%</b>	<b>87,32</b>	<b>1,64%</b>
Other long-term financial liabilities	0,28	0,01%	0,69	0,01%
Other long-term liabilities	1,06	0,02%	0,90	0,02%
Deferred income tax provision	69,77	1,30%	83,00	1,56%
Provision for employee benefits	3,28	0,06%	2,72	0,05%
<b>Short-term liabilities</b>	<b>4 229,68</b>	<b>78,99%</b>	<b>4 237,51</b>	<b>79,61%</b>
Short-term loans and credits	1 014,43	18,94%	691,47	12,99%
Other short-term financial liabilities	28,88	0,54%	245,96	4,62%
Trade liabilities	2 887,36	53,92%	3 061,02	57,51%
Current income tax liabilities	40,24	0,75%	-	0,00%
Other short-term liabilities	49,42	0,92%	53,78	1,01%
Provision for employee benefits	68,63	1,28%	68,73	1,29%
Other short-term provisions	140,72	2,63%	116,56	2,19%
<b>Liabilities</b>	<b>4 304,07</b>	<b>80,38%</b>	<b>4 324,83</b>	<b>81,25%</b>
<b>Total liabilities</b>	<b>5 354,94</b>	<b>100,00%</b>	<b>5 322,94</b>	<b>100,00%</b>

***Loan Agreements, Warranties and Collaterals****Loan agreements*

Information on credit agreements concluded by Eurocash is presented in Note 21 to the separate financial statement for 2018.

*Loans granted*

In 2018, Eurocash 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 companies are presented in Note 33 to the separate financial statements for 2018.

## **Issue of Securities and Bonds in 2018**

### *Issue of shares*

In the period between 1<sup>st</sup> October 2018 and 31<sup>st</sup> December 2018 no shares were issued

### *Issue of securities and bonds*

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

## **4.5. Key Off-balance Sheet Items**

Information on key off-balance sheet items for the Eurocash S.A. is provided in supplementary information to the annual separate financial statements, i.e. Note 33.

## **4.6. Eurocash Cash Flow Analysis**

### **Cash flow Statement**

**Table 7: Eurocash: Cash flows for 2018**

PLN m	<b>2018</b>	<b>2017</b>
Operating cash flow	318,75	417,13
<i>Gross profit (loss)</i>	<i>194,01</i>	<i>(29,75)</i>
<i>Depreciation</i>	<i>115,74</i>	<i>114,13</i>
<i>Change in working capital</i>	<i>19,46</i>	<i>290,26</i>
<i>Other</i>	<i>(10,46)</i>	<i>42,48</i>
Cash flow from investments	(309,28)	(279,80)
Cash flow from financing activities	(27,06)	(114,67)
<b>Total cash flow</b>	<b>(17,59)</b>	<b>22,66</b>

Total cash flow in 2018 amounted to negative PLN 17.59 m. In 2018 operating cash flow reached PLN 318.75 m, which means decrease by 23,59% YoY.

Cash flow from investment activities amounted to negative PLN 309.28 m in 2018 and cash flow from financing activities amounted to PLN -27.06 m.

### ***Working capital rotation***

**Table 8: Eurocash: Working Capital Ratios for 2018**

Turnover in days	2018	2017
1. Inventories turnover	21,02	23,75
2. Trade receivables turnover	26,76	33,63
3. Trade liabilities turnover	80,90	92,23
<b>4. Operating cycle (1+2)</b>	<b>47,78</b>	<b>57,38</b>
<b>5. Cash conversion (4-3)</b>	<b>(33,12)</b>	<b>(34,85)</b>

Cash conversion amounted to -33.12 days in 2018 compared to -34.85 in 2017 which means decrease by 1,73 day.

### ***Evaluation of Funds Management***

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

The main base of liquidity management in Eurocash is internal model of forecasting cash flows. Eurocash uses two lines of credit to hedge the liquidity needs of the Company. Eurocash optimize liquidity at subsidiaries 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 companies to pay their liabilities. Key financial risk factors related to Eurocash 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 separate financial statements.

## **4.7. Investment Activity**

### **Major Investments Completed in 2018**

In 2018, the total investment outlays amounted to PLN 449.36 million, which means an increase by 87,8% compared to 2017.

**Table 9: Eurocash: Investment of Eurocash in 2017**

<i>PLN m</i>	<b>2018</b>	<b>2017</b>
<b>Total investment outlays</b>	<b>449.36</b>	<b>239.28</b>

***Assessment of Capacity to Carry out Anticipated Investments***

Key investments planned for 2019 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 Company.
- Replacement investment,
- Updated strategy until 2023 which assumes bigger investments in Retail.

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

**4.8. Key Contributors to 2017 Financial Performance of Eurocash S.A.**

***Equity Changes***

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

**Dividend Payment**

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

## **5. ADDITIONAL INFORMATION**

### **5.1. Information on Court Proceedings**

In 2018 Eurocash 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 which represent at least 10% of issuer's equity.

### **5.2. Information on Significant Agreements**

#### *Agreement to acquire entities controlling the MILA chain of stores*

On 29<sup>th</sup> May 2018 Eurocash S.A. acquired 100% of shares in the share capital of Domelius Limited (company under Cypriot law) with its registered office in Nicosia considered by the issuer, as well as taking over control on its subsidiary companies including: Mila Holding S.A. (previously Grupa 700 market-Detal spółka z o.o. S.K.A.), Mila S.A. (previously market-Detal spółka z o.o. sp.j.), Investpol 700 Mila spółka jawna and "Koja-Mila spółka akcyjna" spółka jawna.

Value of the transaction was settled on PLN 349,28 m, excluding some real estate which will not be taken over by Eurocash.

The takeover of the network of 187 Mila grocery stores operating in central Poland will enable the further development of the Eurocash Group and creation of a nationwide supermarket chain based on franchise and own stores.

Total sales revenues in the Mila network in 2017 reached approximately PLN 1.48 billion.

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

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

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



### **5.3. Information concerning execution by the issuer or its subsidiary transaction with related parties**

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

### **5.4. Information on Transactions with Connected Entities**

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

### **5.5. Forecasts Publication**

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

### **5.6. Changes in Key Management Principles**

#### *Resignation of Member of the Supervisory Board*

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

#### *Appointment of Member of the Supervisory Board*

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

#### *Appointment and Resignation of Member of the Management Board*

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

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

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

### 5.7. Agreements with Members of the Management Board as Financial Compensation Guarantees

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

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

### 5.8. Information on Registered Audit Company

The separate financial statements of Eurocash S.A. for 2018 were audited by Ernst & Young Audyt Polska sp. z o.o. sp. k. on the basis of a contract concluded on 17<sup>th</sup> July 2017.

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

**Table 10: Eurocash: Capital expenditures for audit and review of financial statements**

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

## 6. STATEMENT ON CORPORATE GOVERNANCE RULES

### 6.1. Indication of Corporate Governance Rules Applicable to Issuer

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

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

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

### 6.2. Shareholders structure

#### *Shareholders with Direct or Indirect Substantial Shareholding in Eurocash*

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

**Table 11: Shareholders with Direct or Indirect Substantial Shareholding in Eurocash**

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

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

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

**Table 12: Shares in the company held by members of the management board and their rights to subscription**

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

**Table 13: Shares in the company held by supervisory board and rights to subscription**

	Eurocash shareholding		Share subscription rights	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
João Borges de Assuncao	0	0	0	0
Francisco José Valente Hipólito dos Santos	0	0	0	0
Hans Joachim Körber	0	0	0	0
Jacek Sz wajcowski	0	0	0	0
Alicja Kornasiewicz	0	Not applicable	0	Not applicable

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

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

#### ***Restrictions regarding Exercising Right to Vote***

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

A prohibition on exercising the right to vote by the shareholder may result from art. 89 of the Act dated July 29, 2005 on Public Offerings, and Conditions Governing the Introduction of Financial Instruments

to Organized Trading, and Public Companies (hereinafter “Act on Offering”), should the shareholder violate specified provisions set forth in Chapter 4 of the Act on Offering. Pursuant to art. 6 § 1 of the Commercial Companies Code, should the controlling entity fail to notify the controlled capital company about the introduction of the dominant relationship within two weeks of the start of the relationship, the right to vote carried by shareholding in the controlling entity which represents over 33% of the share capital of the controlled company is suspended.

### ***Restrictions regarding Transfer of Ownership Rights to Securities of Issuer***

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

### ***Agreements which May Result in Changes of Blocks of Shares Held***

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

### ***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 at the day of December 31<sup>st</sup> 2018 is presented below.

**Table 14: The composition of the Management Board in 2018**

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

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

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

#### ***Powers of the Management Board***

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

The work of the Management Board is headed by the President of the Management Board. All members of the Management Board are obliged and entitled to jointly manage the Company's affairs, in particular in the following scopes:

- (i) determine the long- and medium-term development strategy as well as main objectives of the Company operations, increase the Company value to the shareholders and report them to the Supervisory Board, review the level of achievement of such goals and modify them if necessary,
- (ii) define the Company's financial goals,

- (iii) implement and follow through the long- and medium-term development strategy as well as the main Company's operating objectives and financial goals,
- (iv) analyze major investment projects and related methods of funding,
- (v) determine the principles of HR and remuneration policies, including:
  - appointment of the Company's key management staff,
  - determining principles of employment, remuneration, and HR policies, as well as conducting a periodical analysis of the HR situation in the Company,
- (vi) establish the Company's organizational structure,
- (vii) approve the annual and/or long-term Company's budget,
- (viii) determine an internal division of duties and responsibilities for Management Board Members,
- (ix) set down Rules and other internal regulations of the Company unless the provisions of law or Articles of Association provide otherwise,
- (x) take decisions on matters of exceptional importance as well as matters and transactions which may constitute material risk to the Company in line with the justified opinion of the Management Board Member,
- (xi) request that the Supervisory Board submit an appraisal of draft resolutions which are to be presented to Shareholders at the Shareholders' Meeting,
- (xii) any other actions which go beyond the ordinary management of the Company.

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

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

Detailed Management Board procedures are defined in Management Board Rules adopted by the Management Board and approved by the Supervisory Board. The content of the most up-to-date Management Board Rules is available at:

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

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

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

## ***Supervisory Board***

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

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

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

**Table 15: The composition of the Supervisory Board in 2018**

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

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

- (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, and Ms. Alicja Kornasiewicz appointed by Politra B.V. S.a.r.l, who submitted representation which meet criteria of an independent Supervisory Board member.

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

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

## ***Powers of the Supervisory Board***

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



- (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:

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

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

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

### ***Supervisory Board Committees***

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

- (i) the Audit Committee, and
- (ii) the Remunerations Committee
- (iii) the Nomination Committee.

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

Responsibilities of the Audit Committee include as follows:

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

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

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: Francisco José Valente Hipólito dos Santos (Chairman), Alicja Kornasiewicz and Hans Joachim Körber.

The responsibilities of the Nomination Committee shall include:

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

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

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

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

## **General Shareholders' Meeting**

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

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

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

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

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

According to the Articles of Association, the powers of the General Meeting include in particular:

- (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) 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  $\frac{3}{4}$  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  $\frac{3}{4}$  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 31.12.2018, no options for Eurocash Group shares have been exercised.

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

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

### ***6.7. 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 Company 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 Eurocash 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 Company operations. The Eurocash 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 Company.

The Financial Department of the Controlling Entity headed by the Financial Director is in charge of drafting separated financial statements and periodical reports of the Company. Financial data which is the basis for separated financial statements and periodical reports are sourced from monthly financial and management reporting applied by the Eurocash 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 Eurocash 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 Company.

The Company conducts an annual review of both business strategy and plans. The budgeting process is supported by the Eurocash 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 Eurocash adopted accounting policy.

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

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

## **7. REPRESENTATIONS OF THE MANAGEMENT BOARD**

### **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 S.A. and of its financial performance for 2018
- the report of the Management Board on business operations of Eurocash S.A. in 2018 contains a true view of the development, achievements, and the position of Eurocash S.A., including the discussion of main risks and threats,
- prepared in a separate form the non-financial report is in accordance with the applicable principles of the Accounting Act and contains a true picture of the activities of the Eurocash Group in this area.

### **7.2. Appointment of Entity Qualified to Audit Financial Statements**

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

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

## **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 by 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**

<b>Position</b>	<b>Name and surname</b>	<b>Date</b>	<b>Signature</b>
President	Luis Amaral	15 <sup>th</sup> March 2019	
Management Board Member Chief Executive Officer	Rui Amaral	15 <sup>th</sup> March 2019	
Management Board Member	Arnaldo Guerreiro	15 <sup>th</sup> March 2019	
Management Board Member	Pedro Martinho	15 <sup>th</sup> March 2019	
Management Board Member Human Resources Director	Katarzyna Kopaczewska	15 <sup>th</sup> March 2019	
Management Board Member Financial Director	Jacek Owczarek	15 <sup>th</sup> March 2019	
Management Board Member	Przemysław Ciaś	15 <sup>th</sup> March 2019	

## SELECTED SEPARATE FINANCIAL DATA

	for the period from 01.01.2018 to 31.12.2018 PLN	for the period from 01.01.2017 to 31.12.2017 PLN	for the period from 01.01.2018 to 31.12.2018 EUR	for the period from 01.01.2017 to 31.12.2017 EUR
Net sales	14 775 940 898	13 658 042 229	3 466 659 057	3 207 920 478
Operating profit (loss)	178 661 815	(22 009 654)	41 916 762	(5 169 498)
Profit (loss) before tax	194 006 583	(29 745 445)	45 516 877	(6 986 435)
Net Profit (loss) on continued operations	149 621 055	(71 713 088)	35 103 361	(16 843 548)
Net profit (loss)	149 621 055	(71 713 088)	35 103 361	(16 843 548)
Net operating cash flow	318 749 139	417 129 837	74 783 365	97 972 998
Net investment cash flow	(309 279 830)	(279 796 782)	(72 561 722)	(65 717 019)
Net financial cash flow	(27 058 407)	(114 674 100)	(6 348 311)	(26 933 977)
Net change in cash and cash equivalents	(17 589 098)	22 658 955	(4 126 668)	5 322 002
Weighted average number of shares	139 163 286	139 158 564	139 163 286	139 158 564
Weighted average diluted number of shares	139 163 286	139 158 564	139 163 286	139 158 564
EPS (in PLN / EUR)	1,08	(0,52)	0,25	(0,12)
Diluted EPS (in PLN / EUR)	1,08	(0,52)	0,25	(0,12)
Average PLN / EUR rate*			4,2623	4,2576
	as at 31.12.2018 PLN	as at 31.12.2017 PLN	as at 31.12.2018 EUR	as at 31.12.2017 EUR
Assets	5 354 939 292	5 322 938 556	1 245 334 719	1 276 208 626
Long-term liabilities	74 392 609	87 317 132	17 300 607	20 934 842
Short-term liabilities	4 229 679 808	4 237 511 754	983 646 467	1 015 970 595
Equity	1 050 866 874	998 109 670	244 387 645	239 303 189
Share capital	139 163 286	139 163 286	32 363 555	33 365 290
Number of shares	139 163 286	139 163 286	139 163 286	139 163 286
Diluted number of shares	142 069 536	142 069 536	142 069 536	142 069 536
Book value per share (in PLN / EUR)	7,55	7,17	1,76	1,72
Diluted book value per share (in PLN / EUR)	7,40	7,03	1,72	1,68
Dividend paid (in PLN / EUR) ***	101 589 199	101 589 199	23 625 395	24 356 661
Dividend paid per share (in PLN / EUR)	0,73	0,73	0,17	0,18
PLN / EUR rate at the end of the period**			4,3000	4,1709

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

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

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

## INDEPENDENT AUDITOR'S REPORT ON THE AUDIT

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

### Audit report on the annual financial statements

#### Opinion

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

In our opinion the financial statements:

- give a true and fair view of the financial position of the Company as at 31 December 2018 and its financial performance and its cash flows for the period from 1 January 2018 to 31 December 2018 in accordance with required applicable rules of International Accounting Standards, International Financial Reporting Standards approved by the European Union and the adopted accounting policies,
- are in respect of the form and content in accordance with legal regulations governing the Company and the Company's Statute,
- have been prepared based on properly maintained accounting records, in accordance with chapter 2 of the Accounting Act dated 29 September 1994 (the 'Accounting Act').

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

## Basis for opinion

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

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

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

## Key audit matters

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

Key audit matter	How the matter was addressed in our audit
<b>Revenue recognition</b> Eurocash S.A. presents in the financial statements revenues from sale in total amounting PLN 14 776 million. The Company sells goods to multiple clients using several sales channels	Our audit procedures included understanding of the Company's revenue recognition accounting policies and assessment of compliance with IFRS 15 Revenue from Contracts with Customers, including identification of the

<p>dispersed over business units within a couple operational segments. Revenue is measured taking into account discounts, incentives and rebates earned by customers. The revenue is one of the key performance indicators for the management. Due to the multitude and variety of contractual terms and markets that Company operates, the revenue recognition determinants such as estimation of discounts, incentives and rebates recognized based on sales, as well as assessment of potential returns, transfer of risks and rewards and determination whether the Company acts as agent or principal - are considered to be complex. Taking into account also the scale of revenues, we assessed that area as a key audit matter.</p> <p>The Company's disclosures are set out in point 2.26 of the accounting principles "Sales revenues" and note 25 "Sales revenues in the accounting period" to the financial statements.</p>	<p>contracts with customers and performance obligations within, as well as allocation of the transaction price to those performance obligations.</p> <p>We also assessed the Company's internal controls over sales process, timing and measurement of revenue recognition.</p> <p>We performed test of controls for selected, identified controls.</p> <p>We analyzed transactions taking place before and after the balance sheet date as well as credit notes and corrections issued after the year end date for the determination of revenue recognition period. We also gained understanding and analyzed key terms and conditions of the agreements with customers to assess whether amounts recognized as revenues were accurate and recognized in the correct period.</p> <p>We performed test of details, related to selected revenues accounts.</p> <p>We also considered the adequacy of the Company's disclosures in respect of revenue.</p>
<p><b>Recognition of bonuses, discounts and related receivables</b></p> <p>Eurocash S.A. presents in the financial statements costs of sales in total amounting PLN 13 026 million.</p> <p>The Company receives various types of vendor allowances and price reductions. Those settlements are a significant component of cost of sales. Majority of them are settled during the financial year while as at 31 December 2018, the position not yet settled with vendors amounted to approximately PLN 380 million. Bonuses, discounts and related settlements were significant for our audit as recognition of the cost reductions and related settlements requires</p>	<p>Our audit procedures included understanding of the Company's policies related to measurement of purchases and cost of sales and assessing compliance of those policies with applicable accounting standards.</p> <p>We also assessed the Company's internal controls over identification and measurement of contractually agreed obligations, and the allocation of them to inventory and cost of sales. We performed tests on transactions recorded during the year for contractual evidence on a sample basis. We also analyzed the open vendors amounts at the balance sheet date, based on contractual terms reconciled to post year-end settlements, as well as cut-off tests for</p>



<p>management's judgement, including the nature and level of the Company's obligations under the purchase contracts, estimates with respect to fulfillment of purchase and sales volumes at the balance sheet date, as well as allocation of the settlements between inventory and cost of sales. Taking into account the scale of those settlements and complexity of the estimates, we assessed that area as a key audit matter.</p> <p>The relevant disclosures are set out in point 2.17 of the accounting principles "Trade receivables and other short-term receivables" in point 2.23 of the accounting principles "Short-term liabilities", in note 13 "Trade and other receivables" and note 20 "Trade and other payables" to the consolidated financial statements.</p>	<p>obligation fulfillment at the balance sheet date. Moreover, we evaluated reliability of management's estimates on the basis of retrospective review of the subsequent collections of allowances recognized in prior reporting period.</p> <p>We also considered the adequacy of the Company's disclosures in respect of costs of sales and related settlements.</p>
<p><b>Impairment of investments, goodwill and other intangible assets</b></p> <p>At 31 December 2018, the carrying value of investments in subsidiaries and affiliates amounted to PLN 1 332 million and constituted 25% of the Company's total assets as of that date. The carrying value of goodwill and other intangible assets, including trademarks with indefinite useful life amounted to PLN 1 385 million and constituted 25% of the Company's total assets as of that date.</p> <p>The Company performed an impairment indicators analysis and tests for relevant assets based on their assessed recoverable amount.</p> <p>Process of impairment assessment is complex and requires significant management judgement, in particular related to forecasted revenues, costs and cash flows that depends on Group</p>	<p>Our audit procedures included the understanding and evaluation of the impairment testing process, as well as assessment of assumptions and methodology used by the Company to prepare estimates and verification of mathematical accuracy of the underlying calculations. Our procedures included:</p> <ul style="list-style-type: none"> <li>- analysis of arithmetic accuracy of discounted cash flows model calculations and the reconciliation of the source data to current financial forecasts and budgets,</li> <li>- assessment of key assumptions and estimates of the model of value in use assessment, including assumptions related to the future cash flows and residual values after the detailed forecast period,</li> <li>- the comparison of applied discount and growth rates to the market benchmarks</li> </ul>

<p>strategy, future growth rates and discount rates, which are affected by expected future market and economic conditions.</p> <p>The assessment of impairment of investments, goodwill and other intangible assets was significant to our audit due to their magnitude for the financial statements and as it involves judgment in making the significant assumptions related to cash flows forecasts.</p> <p>The Company's disclosures about relevant impairment analysis are included in point 2.20 "Impairment of assets", note 2.10 "Investments in subsidiaries" and note 3 "Goodwill and intangible assets" to the financial statements, note 7 "Investments in Subsidiaries" and note 8 „Investments in Associates and Joint Ventures”.</p>	<p>with support of our internal valuation specialists,</p> <ul style="list-style-type: none"> <li>- testing the sensitivity of the recoverable amount in the available headroom considering what change in assumptions could cause the carrying amount of the relevant assets to exceed their recoverable amount,</li> </ul> <p>We have assessed the disclosures related to the impairment tests for investments in subsidiaries and affiliates, goodwill and other intangible assets, including disclosures on sensitivity analysis.</p>
<p><b>Uncertain tax positions</b></p> <p>The Company takes part in multiple transactions which may be subject to audit by tax authorities. Those include transactions with related parties, such as purchase/ sale of trade goods, restructuring within the Eurocash Group, purchase of shares and intangible assets like goodwill and trademarks.</p> <p>Effective from 15 July 2016, General Anti-Avoidance Rule (GAAR) was introduced to the polish tax law. GAAR is intended to prevent the creation and use of artificial legal arrangements to avoid payment of tax in Poland and is effective also with respect to transactions performed following its entry into force as well as transactions that were carried out before, but the benefits are being achieved after the date of its entry into force. Implementation of the above provisions results in increased scrutiny of</p>	<p>We gained our understanding of the Company's process of preparation of the tax settlements and the related accounting policy, and evaluated the identification of key tax issues related to the activity of the Company. We have also gained understanding of the rationale for the Management's judgements made in relation to the uncertain tax positions, including reports of independent tax advisors. In particular, we evaluated the management's assessment of uncertainty over tax treatments, for which relevant interpretations, rulings and decisions, income tax practices, tax authorities examinations results are taken into consideration.</p> <p>We obtained explanations from management and evidence including communication with tax authorities, relevant calculations and copies of external tax advice reports. We used our tax specialist to assist us in the evaluation of the Management's judgments in the light of the tax</p>

tax authorities in relation to tax settlements, in particular in relation to group's restructurings and reorganizations, contributions etc.

Due to complexity of the tax regulations the process of interpretation of settlements between related parties is complicated and requires assumptions and judgments. Taking this into account, the interpretation taken by external authorities (including tax authorities), may differ from interpretation assumed by Management Board.

In the current and previous reporting period, tax inspections and proceedings, including VAT and CIT, were initiated or lasted regarding the Company; the values associated with these tax audits are significant.

Uncertainty of tax positions is related also to the complexity of the Eurocash S.A. Capital Group's legal structure and changing tax environment in which the Company and other companies from the Eurocash Group operate. Assessment of those uncertainties is complex and requires significant Management judgement in determining the corporate income tax and other tax provisions. Changes in assumptions of the positions that may be taken by tax authorities, can materially impact the level of tax liabilities included in the financial statements.

The Company's disclosures regarding the matters described above are included in point 2.31 "Assessment of Uncertainty in Tax Settlement and note 23 "Income Taxes" to the financial statements,

law as well as current practice and legal interpretations.

We assessed the management's assumptions related to the determination of the liabilities and provisions recorded in the financial statements or the rationale for the lack of recognition of liabilities by obtaining written responses of the external tax advisors on the material tax exposures addressed to the Company.

We assessed the disclosures related to the tax settlements, as well as Company's uncertain tax positions.

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

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

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

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

## **Auditor's responsibility for the audit of the financial statements**

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

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

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or override of internal control,
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control,
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company's Management,
- conclude on the appropriateness of the Company's Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report, however, future events or conditions may cause the Company to cease to continue as a going concern,
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

### **Other information, including the Directors' Report**

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

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

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

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

#### *Auditor's responsibility*

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

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

### **Opinion on the Directors' Report**

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

- has been prepared in accordance with the article 49 of the Accounting Act and paragraph 70 of the Decree of the Minister of Finance dated 29 March 2018 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (the 'Decree on current and periodic information'),
- is consistent with the information contained in the financial statements.

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

### **Opinion on the corporate governance application representation**

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

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

### **Information on non-financial information**

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

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

### **Representation on the provision of non-audit services**

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

### **Appointment of the audit firm**

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

Warsaw, 15 March 2019

Key Certified Auditor

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Robert Klimacki  
certified auditor  
no in the register: 90055

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



**EUROCASH S.A.**

**SEPARATE FINANCIAL STATEMENTS**

FOR THE PERIOD FROM 1 JANUARY 2018 TO 31 DECEMBER 2018

**TRANSLATORS' EXPLANATORY NOTE**

The following document is a translation of the report for the above-mentioned Polish Company.  
Should any discrepancies arise while interpreting the terminology, the Polish version is binding.

KOMORNIKI, 15 March 2019

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<i>Separate financial statements of EUROCASH S.A.</i>			
Financial statements period:	<i>1 January -31 December 2018</i>	Presentation currency:	<i>Polish zloty (PLN)</i>
Level of round-offs:	<i>All values are expressed in Polish zloty (unless indicated otherwise)</i>		

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<i>Separate financial statements of EUROCASH S.A.</i>			
Financial statements period:	1 January -31 December 2018	Presentation currency:	Polish zloty (PLN)
Level of round-offs:	All values are expressed in Polish zloty (unless indicated otherwise)		

## GENERAL INFORMATION

### 1. INFORMATION ABOUT THE COMPANY

#### NAME

EUROCASH Spółka Akcyjna ("Company")

#### REGISTERED OFFICE

ul. Wiśniowa 11, 62-052 Komorniki

#### CORE BUSINESS

Non-specialized wholesale trade  
(PKD 4690Z)

#### REGISTRY COURT

District Court Poznań - Nowe Miasto i Wilda of Poznań, VIII Commercial Division of the National Court Register,  
Registration number: KRS 00000213765

#### PERIOD FOR WHICH THE COMPANY WAS ESTABLISHED

Indefinite

#### PERIOD COVERED BY THE FINANCIAL STATEMENTS

The reporting period started 1 January 2018 and ended 31 December 2018, and the comparable period is the period from 1 January 2017 to 31 December 2017.

The consolidated statement of financial position has been prepared as at 31 December 2018, and the comparative figures are presented as at 31 December 2017.

The Company prepared consolidated financial statements for the year ended on 31 December 2018, which was approved for publication on 15 March 2019.

### 2. BODIES OF THE COMPANY

#### 2.1. MANAGEMENT BOARD

As at 31 December 2018, the Company'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 Cias – Member of the Management Board.

<i>Separate financial statements of EUROCASH S.A.</i>			
Financial statements period:	<i>1 January -31 December 2018</i>	Presentation currency:	<i>Polish zloty (PLN)</i>
Level of round-offs:	<i>All values are expressed in Polish zloty (unless indicated otherwise)</i>		

## 2.2. SUPERVISORY BOARD

As at 31 December 2018, the Company's Supervisory Board consisted of the following members:

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

## 2.3. CHANGES IN THE MANAGEMENT AND SUPERVISORY BOARD

On 22 March 2018, the Supervisory Board of Parent Entity took a resolution of appointing Mr. Paweł Musiał as a Member of the Management Board on 1 April 2018.

On 25 April 2018, with effect on the day of making the statement, Mr. Eduardo Aguinaga de Moraes resigned from the position of a Member of the Supervisory Board of the Parent Entity.

On 25 April 2018, Ms. Alicja Kornasiewicz was appointed as a Member of the Supervisory Board of the Parent Entity.

On 26 July 2018, Mr. Paweł Musiał resigned from the function of Member of the Management Board with effect on 31 July 2018.

<i>Separate financial statements of EUROCASH S.A.</i>			
Financial statements period:	1 January -31 December 2018	Presentation currency:	Polish zloty (PLN)
Level of round-offs:	All values are expressed in Polish zloty (unless indicated otherwise)		

## SEPARATE INCOME STATEMENT FOR THE PERIOD FROM 01.01.2018 TO 31.12.2018

	Note	for the period from 01.01.2018 to 31.12.2018	for the period from 01.01.2017 to 31.12.2017 restated *
<b>Sales</b>		<b>14 775 940 898</b>	<b>13 658 042 229</b>
Sales of goods	25	14 697 738 394	13 580 367 154
Sales of services	25	78 202 504	77 675 075
<b>Costs of sales</b>		<b>(13 026 365 679)</b>	<b>(12 113 678 872)</b>
Cost of goods and services sold *		(13 026 365 679)	(12 113 678 872)
<b>Gross profit (loss)</b>		<b>1 749 575 219</b>	<b>1 544 363 357</b>
Selling expenses	26	(1 317 493 794)	(1 201 890 746)
General and administrative expenses	26	(263 675 008)	(257 739 539)
<b>Profit (loss) on sales</b>		<b>168 406 417</b>	<b>84 733 071</b>
Other operating income	27	41 874 022	42 278 532
Other operating expenses	27	(31 618 624)	(149 021 257)
<b>Operating profit (loss)</b>		<b>178 661 815</b>	<b>(22 009 654)</b>
Financial income	28	95 862 636	53 756 600
Financial costs	28	(80 517 868)	(61 492 391)
<b>Profit (loss) before tax</b>		<b>194 006 583</b>	<b>(29 745 445)</b>
Income tax expense	23	(44 385 528)	(41 967 643)
<b>Profit (loss) for the period</b>		<b>149 621 055</b>	<b>(71 713 088)</b>

### NET EARNINGS PER SHARE

		PLN / share	PLN / share
Net profit (loss)		149 621 055	(71 713 088)
Weighted average number of shares	29	139 163 286	139 158 564
Weighted average diluted number of shares	29	139 163 286	139 158 564
<b>Earnings per share</b>			
- basic	29	1,08	(0,52)
- diluted	29	1,08	(0,52)

\* Note 2

<i>Separate financial statements of EUROCASH S.A.</i>			
Financial statements period:	1 January -31 December 2018	Presentation currency:	Polish zloty (PLN)
Level of round-offs:	All values are expressed in Polish zloty (unless indicated otherwise)		

## SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 01.01.2018 TO 31.12.2018

	for the period from 01.01.2018 to 31.12.2018	for the period from 01.01.2017 to 31.12.2017
<b>Profit (loss) for the period</b>	<b>149 621 055</b>	<b>(71 713 088)</b>
<b>Other comprehensive income (loss) for the period</b>	<b>(1 154 653)</b>	<b>(173 072)</b>
Items that may be subsequently reclassified to profit or loss:		
- The result on hedge accounting with the tax effect:	(1 154 653)	(173 072)
<b>Total comprehensive income (loss) for the period</b>	<b>148 466 403</b>	<b>(71 886 160)</b>

Separate financial statements of EUROCASH S.A.			
Financial statements period:	1 January -31 December 2018	Presentation currency:	Polish zloty (PLN)
Level of round-offs:	All values are expressed in Polish zloty (unless indicated otherwise)		

## SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31.12.2018

	Note	as at 31.12.2018	as at 31.12.2017
<i>Assets</i>			
<b>Non-current assets (long-term)</b>		<b>3 222 629 262</b>	<b>2 901 783 317</b>
Goodwill	3	862 819 840	862 819 840
Intangible assets	3	523 056 721	537 898 915
Property, plant and equipment	4	447 770 647	460 893 534
Investment real property	6	957 103	972 799
Investments in subsidiary companies	7	1 291 451 999	953 265 943
Investments in associates and joint ventures	8	40 586 757	40 586 757
Other long-term investments	9	45 932 683	42 293 906
Long-term receivables	10	9 298 123	2 012 691
Other long-term prepayments	11	755 389	1 038 932
<b>Current assets (short-term)</b>		<b>2 132 310 029</b>	<b>2 421 155 239</b>
Inventories	12	851 055 722	888 688 306
Trade receivables	13	1 083 188 629	1 258 480 286
Current tax assets	13	-	18 659 162
Other short-term receivables	13	66 788 792	58 719 957
Other short-term investments	14	3 410 994	51 335 537
Short-term prepayments	15	29 771 917	29 588 917
Cash and cash equivalents	16	98 093 976	115 683 074
<b>Total assets</b>		<b>5 354 939 292</b>	<b>5 322 938 556</b>

Separate financial statements of EUROCASH S.A.			
Financial statements period:	1 January -31 December 2018	Presentation currency:	Polish zloty (PLN)
Level of round-offs:	All values are expressed in Polish zloty (unless indicated otherwise)		

## SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31.12.2018

	Note	as at 31.12.2018	as at 31.12.2017
<i>Equity and liabilities</i>			
<b>Equity</b>		<b>1 050 866 874</b>	<b>998 109 670</b>
Share capital	17	139 163 286	139 163 286
Reserve capital		680 200 006	847 622 292
Hedging reserve		(7 638 430)	(6 483 777)
Retained earnings		239 142 012	17 807 869
Accumulated profit (loss) from previous years		89 520 957	89 520 957
Profit (loss) for the period		149 621 055	(71 713 088)
<b>Liabilities</b>		<b>4 304 072 417</b>	<b>4 324 828 886</b>
<b>Non-current liabilities</b>		<b>74 392 609</b>	<b>87 317 132</b>
Other long-term financial liabilities	22	281 330	693 162
Other long-term liabilities	20	1 061 800	903 500
Deferred tax liabilities	24	69 767 245	82 997 612
Employee benefits	19	3 282 234	2 722 858
<b>Current liabilities</b>		<b>4 229 679 808</b>	<b>4 237 511 754</b>
Loans and borrowings	21	1 014 433 854	691 467 746
Short-term financial liabilities	22	28 882 096	245 956 170
Trade liabilities	20	2 887 356 977	3 061 015 686
Current tax liabilities	20	40 241 661	-
Other short-term payables	20	49 419 392	53 782 691
Current employee benefits	19	68 627 054	68 730 494
Provisions	19	140 718 774	116 558 967
<b>Total equity and liabilities</b>		<b>5 354 939 292</b>	<b>5 322 938 556</b>

## BOOK VALUE PER SHARE

	as at 31.12.2018	as at 31.12.2017
<b>Book value</b>	<b>1 050 866 874</b>	<b>998 109 670</b>
Number of shares	139 163 286	139 163 286
Diluted number of shares	142 069 536	142 069 536
<b>Book value per share</b>	<b>7,55</b>	<b>7,17</b>
<b>Diluted book value per share</b>	<b>7,40</b>	<b>7,03</b>



Separate financial statements of EUROCASH S.A.			
Financial statements period:	1 January -31 December 2018	Presentation currency:	Polish zloty (PLN)
Level of round-offs:	All values are expressed in Polish zloty (unless indicated otherwise)		

## SEPARATE STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 01.01.2018 TO 31.12.2018

	for the period from 01.01.2018 to 31.12.2018	for the period from 01.01.2017 to 31.12.2017
<i>Cash flow from operating activities</i>		
<b>Profit (loss) before income tax</b>	<b>194 006 583</b>	<b>(29 745 445)</b>
<b>Adjustments for:</b>	<b>125 463 908</b>	<b>147 845 797</b>
Depreciation and amortization	115 740 618	114 132 123
Equity-settled share-based payment transactions	5 880 000	3 920 000
(Gain) loss on sale of property, plant and equipment	5 947 462	11 783 424
Result on the sale of shares - subsidiaries	(63 207 255)	-
Interest expenses	73 550 140	47 713 008
Interest received	(6 595 217)	(3 415 066)
Dividend and remission of sales income	(5 851 841)	(26 287 691)
<b>Operating cash before changes in working capital</b>	<b>319 470 491</b>	<b>118 100 352</b>
Changes in inventories	37 634 186	(89 689 757)
Changes in receivables	160 548 744	63 453 584
Changes in payables	(178 718 781)	316 499 226
Changes in provisions and employee benefits	20 738 042	26 541 672
<b>Operating cash</b>	<b>359 672 681</b>	<b>434 905 077</b>
Interest received	3 330 895	2 023 434
Interest paid	(37 801 148)	(16 376 618)
Income tax paid	(6 453 289)	(3 422 056)
<b>Net cash from operating activities</b>	<b>318 749 139</b>	<b>417 129 837</b>
<i>Cash flow from investing activities</i>		
Acquisition of intangible assets	(26 116 081)	(34 591 234)
Acquisition of property, plant and equipment	(62 654 972)	(95 578 000)
Proceeds from sale of property, plant and equipment	5 851 277	1 704 136
Income/expenses on other short-term financial assets	42 765 624	(50 264 534)
Acquisition of subsidiaries, net of cash acquired	(360 588 801)	(106 884 472)
Proceeds from the sale of shares and stocks - subsidiaries	85 605 000	-
Loans granted	(3 263 004)	(24 348 375)
Repayment received of granted loans	918 672	5 700 000
Interest received	2 350 614	389 464
Dividends received and remission of sales income	5 851 841	26 287 691
<b>Net cash from investing activities</b>	<b>(309 279 830)</b>	<b>(279 796 782)</b>
<i>Cash flows from financing activities</i>		
Proceeds from issue of share capital	-	2 543 150
Income/expenses for other financial liabilities	1 741 224	(4 663 046)
Income/expenses for short term debt securities	(219 533 443)	58 533 443
Proceeds from loans and borrowings	322 584 210	23 335 024
Repayment of borrowings	-	(67 880 924)
Payment of finance lease liabilities	(1 508 439)	(1 427 351)
Other interest	(3 185 536)	(4 451 863)
Interests on loans and borrowings	(25 567 226)	(19 073 334)
Dividends paid	(101 589 199)	(101 589 199)
<b>Net cash used in financing activities</b>	<b>(27 058 407)</b>	<b>(114 674 100)</b>
<b>Net change in cash and cash equivalents</b>	<b>(17 589 098)</b>	<b>22 658 955</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>115 683 074</b>	<b>93 024 119</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>98 093 976</b>	<b>115 683 074</b>

Separate financial statements of EUROCASH S.A.			
Financial statements period:	1 January -31 December 2018	Presentation currency:	Polish zloty (PLN)
Level of round-offs:	All amounts are expressed in Polish zloty (unless indicated otherwise)		

#### SEPARATE STATEMENT ON CHANGES IN EQUITY IN THE PERIOD FROM 01.01.2018 TO 31.12.2018

	Share capital*	Reserve capital	Hedge reserve	Retained earnings	Total
<i>Changes in equity in the period from 01.01 to 31.12.2017</i>					
<b>Balance as at 1 January 2017</b>	<b>139 096 361</b>	<b>840 201 193</b>	<b>(6 310 705)</b>	<b>192 135 030</b>	<b>1 165 121 879</b>
<b>Total comprehensive income for the reporting period</b>					
Profit (loss) for the period from 01.01. to 31.12.2017	-	-	-	(71 713 088)	(71 713 088)
Other comprehensive income for the period 01.01 to 31.12.2017	-	-	(173 072)	-	(173 072)
<b>Total comprehensive income for the period from 01.01. to 31.12.2017</b>	<b>-</b>	<b>-</b>	<b>(173 072)</b>	<b>(71 713 088)</b>	<b>(71 886 160)</b>
Dividends	-	-	-	(101 589 199)	(101 589 199)
Transfer to reserve capital	-	1 024 874	-	(1 024 874)	-
Equity-settled share based payment transactions	-	3 920 000	-	-	3 920 000
Share options exercised	66 925	2 476 225	-	-	2 543 150
<b>Total transaction with Owners of the Company recognized directly in equity</b>	<b>66 925</b>	<b>7 421 099</b>	<b>-</b>	<b>(102 614 073)</b>	<b>(95 126 049)</b>
<b>Balance as at 31.12.2017</b>	<b>139 163 286</b>	<b>847 622 292</b>	<b>(6 483 777)</b>	<b>17 807 869</b>	<b>998 109 670</b>

<i>Changes in equity in the period from 01.01. to 31.12.2018</i>					
<b>Balance as at 01 January 2018</b>	<b>139 163 286</b>	<b>847 622 292</b>	<b>(6 483 777)</b>	<b>17 807 869</b>	<b>998 109 670</b>
<b>Total comprehensive income for the reporting period</b>					
Profit (loss) for the period from 01.01 to 31.12.2018	-	-	-	149 621 055	149 621 055
Other comprehensive income for the period 01.01 to 31.12.2018	-	-	(1 154 653)	-	(1 154 653)
<b>Total comprehensive income for the period from 01.01. to 31.12.2018</b>	<b>-</b>	<b>-</b>	<b>(1 154 653)</b>	<b>149 621 055</b>	<b>148 466 403</b>
Dividends	-	(101 589 199)	-	-	(101 589 199)
Equity-settled share based payment transactions **	-	5 880 000	-	-	5 880 000
Retained earnings	-	(71 713 088)	-	71 713 088	0
<b>Total transaction with Owners of the Company recognized directly in equity</b>	<b>-</b>	<b>(167 422 287)</b>	<b>-</b>	<b>71 713 088</b>	<b>(95 709 199)</b>
<b>Balance as at 31.12.2018</b>	<b>139 163 286</b>	<b>680 200 006</b>	<b>(7 638 430)</b>	<b>239 142 012</b>	<b>1 050 866 874</b>

\* Note 17

\*\* Note 18

<i>Separate financial statements of EUROCASH S.A.</i>			
Financial statements period:	1 January -31 December 2018	Presentation currency:	Polish zloty (PLN)
Level of round-offs:	All amounts are expressed in Polish zloty (unless indicated otherwise)		

## NOTES TO SEPARATE FINANCIAL STATEMENTS PREPARED FOR THE PERIOD FROM 01.01.2018 TO 31.12.2018

### 1. GENERAL INFORMATION

#### 1.1. PUBLICATION OF THE FINANCIAL STATEMENT

According to the resolution of the Management Board dated 15 March 2019, separate financial statements of Eurocash S.A. for the period from 1 January 2018 to 31 December 2018 were authorized for publication.

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

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

#### 1.2. STATEMENT OF COMPLIANCE

These separate financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union ("EU IFRS").

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

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

##### Implementation of IFRS 9

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

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

##### Classification and valuation

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

- debt instruments measured at amortized cost, maintained for obtaining cash flows arising from the contract, being only repayment of the principal and interest on the principal remaining to be repaid. This category includes trade receivables, loans, cash and cash equivalents,
- debt instruments measured at fair value through other comprehensive income, for which accumulated profits or losses previously recognized in other comprehensive income are reclassified to the profit or loss at the moment of cessation of recognition. This category includes loans that arise from financing needs in the Company, maintained both to receive cash flows under the agreement and for the purpose of selling financial assets,

<i>Separate financial statements of EUROCASH S.A.</i>			
Financial statements period:	1 January -31 December 2018	Presentation currency:	Polish zloty (PLN)
Level of round-offs:	All amounts are expressed in Polish zloty (unless indicated otherwise)		

- capital instruments measured at fair value through other comprehensive income, for which accumulated profits or losses previously recognized in other comprehensive income are not reclassified to the profit or loss at the moment of discontinuation of recognition. This category includes shares in other entities and all types of options and warrants purchased, for which the Company made an irrevocable selection in respect of the valuation at the time of the initial recognition or as at the date of the first application of IFRS 9,
- financial assets at fair value through profit or loss include shares of other entities that do not meet the criteria for measurement at amortized cost or at fair value through other comprehensive income.

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

### **Impairment**

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

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

### **Hedge accounting**

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

### **Implementation of IFRS 15**

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

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

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

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

<i>Separate financial statements of EUROCASH S.A.</i>			
Financial statements period:	1 January -31 December 2018	Presentation currency:	Polish zloty (PLN)
Level of round-offs:	All amounts are expressed in Polish zloty (unless indicated otherwise)		

### Implementation of IFRS 16

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

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

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

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

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

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

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

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

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

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

Separate financial statements of EUROCASH S.A.			
Financial statements period:	1 January -31 December 2018	Presentation currency:	Polish zloty (PLN)
Level of round-offs:	All amounts are expressed in Polish zloty (unless indicated otherwise)		

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

	as at 31.12.2018	Impact of IFRS 16	as at 31.12.2018
<i>Assets</i>			
<b>Non-current assets (long-term)</b>	<b>3 222 629 262</b>	<b>861 323 545</b>	<b>4 083 952 807</b>
Property, plant and equipment	447 770 647	861 323 545	1 309 094 198
<b>Current assets (short-term)</b>	<b>2 132 310 029</b>	<b>-</b>	<b>2 132 310 029</b>
<b>Total assets</b>	<b>5 354 939 292</b>	<b>861 323 545</b>	<b>6 216 262 836</b>
<i>Equity and liabilities</i>			
<b>Equity</b>	<b>1 050 866 874</b>	<b>-</b>	<b>1 050 866 874</b>
<b>Liabilities</b>	<b>4 304 072 417</b>	<b>861 323 545</b>	<b>5 165 395 962</b>
<b>Non-current liabilities</b>	<b>74 392 609</b>	<b>736 448 767</b>	<b>810 841 376</b>
Other long-term financial liabilities	281 330	736 448 767	736 730 097
<b>Current liabilities</b>	<b>4 229 679 808</b>	<b>124 874 778</b>	<b>4 354 554 586</b>
Short-term financial liabilities	28 882 096	124 874 778	153 756 874
<b>Total equity and liabilities</b>	<b>5 354 939 292</b>	<b>861 323 545</b>	<b>6 216 262 836</b>

The analysis of the Company's agreements in terms of IFRS 16 began by determining which contracts meet the definition of a lease. Lease liabilities are recognized at the value of discounted future payments during the lease term and the asset due to the right of use - in the same amount corrected by the amount of any prepayments or calculated lease payments recognized in the statement of financial position immediately before the date of first application. Lease payments are discounted using the lesser interest rate of the lessee on the date of the first application, determined for individual leasing portfolios depending on their period and the type of the asset being leased.

The date of start of the leasing period is the date on which the lessor makes the asset available for use by the lessee. The leasing period includes the irrevocable period during which the lessee is entitled to use, along with optional periods, when the Company may with reasonable assurance assume that it will exercise the option of extending or will not use the option of termination. In the case of establishing periods of contracts concluded for an indefinite period, the Company applied the criterion of sufficient certainty and took into account all relevant facts and circumstances, including business plans.

The Company has benefited from the exemption regarding short-term leases.

#### Other

- IFRS 14 Regulatory Deferral Accounts (issued on 30 January 2014) – effective for financial years beginning on or after 1 January 2016;
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture (issued on 11 September 2014) - the effective date was deferred indefinitely by IASB;
- IFRS 16 Leases (issued on 13 January 2016) - effective for financial years beginning on or after 1 January 2019;
- IFRS 17 Insurance Contracts (issued on 18 May 2017) - effective for financial years beginning on or after 1 January 2021;

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

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

#### 1.4. FUNCTIONAL AND PRESENTATION CURRENCY ROUNDINGS

The currency used in these separate financial statements is PLN, which is the Company's functional and presentation currency. All the financial information presented in PLN was rounded to the nearest full PLN unit (unless otherwise specified).

#### 1.5. JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Drafting financial statements in conformity with UE IFRS requires the Management Board 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 were made based on past experience and other factors accepted as reasonable in the given circumstances, and the results of these estimates and judgments were the basis for determining the carrying values of assets and liabilities that were not directly derived from other sources. The actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revised accounting estimates are recognized in the current period 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 Notes 5, 7, 8 and 19. The company identifies control over the entities in which it holds fifty or fewer percent of shares based on the analysis performed in accordance with IFRS 10 and on the basis investment agreements.

The Company uses many financial instruments, including contracts for financing the supply chain (reverse factoring) in relation to its trade liabilities. Taking into account the potential impact of this type of agreements on the cash flow statement and the statement of financial position, the Company analyzes the content of such agreements on a case-by-case basis. In particular, the Management Board assesses whether the supplier financing program does



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not incur significant costs related to this program or significant changes in payment dates and future cash flows. In the case of significant modifications of terms of repayment of trade liabilities, the Company makes appropriate changes to the classification and recognizes liabilities covered by factoring as separate debt financing.

## 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 Company for the year ended 31 December 2017, 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 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 utilised. 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 Company 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. GOING CONCERN

The financial statements were prepared under the assumption that the Company would continue to operate as a going concern for the foreseeable future. As at the date of approval of these financial statements, there are no circumstances indicating a threat to the Company's ability to continue as a going concern, as described in details in note 34.

## 2. APPLIED ACCOUNTING POLICIES

### 2.1. ACCOUNTING POLICIES

The separate financial statements were drafted in line with the historical cost concept except for the following items:

- derivative financial instruments measured at fair value
- financial instruments measured at fair value in profit or loss – at fair value
- available-for-sale financial assets measured at fair value – at fair value



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The most significant accounting policies applied by Eurocash S.A. are presented in points 2.2 through 2.34.

## 2.2. FINANCIAL YEAR

The Company's financial year is a calendar year.

## 2.3. FORMAT AND CONTENT OF SEPARATE FINANCIAL STATEMENTS

In particular, the separate financial statements consist of:

- General information
- Separate profit and loss account
- Separate statement of comprehensive income
- Separate statement of financial position
- Separate statement of cash flows
- Separate statement of changes in equity
- Notes to the separate financial statements, including a summary of significant accounting policies and other explanatory notes.

## 2.4. FOREIGN CURRENCY TRANSACTIONS

Foreign currency transactions are translated into the functional currency (PLN) at the rate of exchange (buy or sell) as at the transaction date.

Cash assets and liabilities denominated in foreign currency at the reporting date are translated into the functional currency at the average exchange rate published by the National Bank of Poland as at that date. Foreign exchange gains or losses on balance sheet valuation of cash assets and liabilities are the difference between valuation at amortized cost in the functional currency at the period start, adjusted for effective interest and payments made during the reporting period, and the value at amortized cost in the foreign currency translated at the average exchange rate published by the National Bank of Poland as at the end of the reporting period.

The rates below have been adopted for the balance sheet valuation:

	31.12.2018	31.12.2017
EUR	4,3000	4,1709

Exchange differences on translation are recognized as profit or loss of the current period, except for differences arising on translation of available-for-sale equity instruments, financial liabilities designated as a hedge of a net investment in a foreign operation's assets, or qualifying cash flow hedges which are recognized in other comprehensive income. Non-cash items which are measured at historical cost in a foreign currency are translated using the exchange rate as at the transaction date.

## 2.5. INTANGIBLE ASSETS

### Definition

Intangible assets include property rights acquired by the Company, with an anticipated useful life exceeding one year, intended to be used by the Company itself, in particular:

- Goodwill,
- Software licences,
- Copyrights,

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- Trademarks, rights to utility models and decorative designs,
- Know-how,
- Customer relations,
- Other intangible assets.

#### **Initial measurement of intangible assets**

The initial value of intangible assets is the acquisition price, which includes the amount payable to the seller and other expenditure directly attributable to acquiring these intangible assets.

#### **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 is taken into consideration. If it is difficult to determine the reasonable economic useful life or there is no certainty of any expected measurable benefits, intangible assets should be recognized 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%      |
| ▪ other intangible assets | 20%      |
| ▪ customer relations      | 5%       |

Eurocash considers the trademarks "Eurocash" and "abc" to be recognizable on the market and intends to use them in its activities for a prolonged period. Therefore, the Company assumes that the life of trademarks "Eurocash" and "abc" is indefinite and not subject to amortization. Trademarks "Eurocash" and "abc" are subject to an annual impairment test.

#### **Review of amortization rates and possible impairment**

Amortization rates applied to intangible assets are subject to review at least as at the end of each financial year and they trigger respective adjustments of future amortization, in the following year and each consecutive financial year.

Not later than as at the end of the reporting year, intangible assets are reviewed in terms of existence of any impairment criteria and the need to write down impairment losses. Impairment losses are written down to other operating expenses not later than as at the reporting date, i.e. in the period they occurred.

Intangible assets with indefinite useful lives and unspecified goodwill are tested for impairment by comparing the carrying value of the specified item against its recoverable amount, regardless of any impairment indication.

#### **Measurement of intangible assets as at the reporting date**

As at the end of the reporting period, the Company measures intangible assets at acquisition cost less accumulated amortization and any accumulated impairment losses.

## **2.6. PROPERTY, PLANT AND EQUIPMENT**

### **Definition**

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Property, plant and equipment include tangible assets held by the Company for business use (useful and intended to be used by the Company) with expected useful lives exceeding one year.

Property, plant and equipment shall include in particular:

- Land,
- Right of perpetual usufruct of land,
- Buildings and structures,
- Plant and machinery,
- Vehicles,
- Other tangible fixed assets (furniture etc.),
- Fixed assets under construction.

#### **Initial measurement of tangible fixed assets**

The initial value of tangible fixed assets is the acquisition price or production cost.

Acquisition price comprises the purchase price of the given asset, including the amount due to the seller (excluding deductible VAT and excise tax) and additional public charges in case of imports.

Acquisition price further includes expenditures directly attributable to the acquisition of the asset and any other costs directly attributable to ensuring that the asset is fit for intended use or for placement on the market, including costs of transport, loading, unloading, storage or marketing, minus rebates, discounts, and other similar price reductions and refunds.

When it is not possible to determine the acquisition price of an asset, in particular when the asset is received free of charge or donated, its value is determined based on 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 during the period of construction, assembly, adaptation and improvement, until the reporting date or the date when the asset is put to use, plus:

- non-deductible VAT and excise duty
- costs of managing debt incurred for financing the asset, together with any foreign exchange differences, less any incomes arising therefrom,
- if required – an estimation of costs of dismantling and removing the items and reinstatement of the original condition.

#### **Subsequent expenditure**

Subsequent expenditures on replacement parts of an item of property, plant and equipment are capitalized if they can be estimated reliably and it is probable that the future economic benefits associated with the part will be effectively gained by the Company. The carrying amount of the removed parts of the respective asset is derecognized. Expenditures on day-to-day maintenance of property, plant and equipment are recognized as a costs of goods sold for the period in which they were incurred.

Each component of property, plant and equipment items whose acquisition price is material in comparison with the purchase price of the entire item is depreciated separately.

#### **Depreciation**

Depreciation is calculated on the depreciable amount, which is the acquisition price or production cost of the given asset less its residual value.

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Tangible fixed assets, excluding land and fixed assets under construction, are depreciated for the duration of their estimated useful life, using the straight-line method and the following depreciation rates:

▪ buildings and structures	2.5% - 4.5%
▪ investments in third party property, plant, and equipment	10%
▪ plant and machinery	10% - 60%
▪ vehicles	14% - 20%
▪ other tangible fixed assets	20%

Tangible fixed assets are depreciated according to straight-line method, starting in the month in which the asset was put to use, on a monthly basis.

If a specified tangible fixed asset consists of separate major component parts with different useful lives, such parts shall be considered separate assets.

Gain or loss on sale, liquidation or withdrawal from use of a property, plant, and equipment item is determined as the difference between the proceeds from sale and the carrying amount of the assets, and is recognized in profit and loss.

#### **Review of depreciation rates and possible impairment**

Depreciation rates are subject to review, not later than at the end of each financial year, and such review may trigger a respective adjustment of future depreciation rates and methods if necessary, in the following year and each consecutive financial year.

Not later than by the end of the financial year, tangible fixed assets are reviewed in terms of existence of indications of impairment and potential need for writing off impairment losses.

Impairment is deemed necessary to be written off when it is highly probable that the given asset will not yield anticipated economic benefits in the future, in its major part or in its entirety, e.g. in case of liquidation or withdrawal of the asset from use.

Impairment losses are carried to other operating expenses no later than at the reporting date (i.e. for the period when the impairment loss was determined).

#### **Measurement of property, plant and equipment as at the end of the reporting period**

Tangible fixed assets are presented in the books at the acquisition price or production cost less accumulated depreciation and any accumulated impairment losses.

Tangible fixed assets under construction which are being produced for the purpose of use in operations are presented in the financial statements at production cost less impairment losses. Production cost includes charges and borrowing costs (for certain assets), capitalized in accordance with the accounting policy specified in section 2.7.

#### **Stocktaking of tangible fixed assets**

Stocktaking of tangible fixed assets is performed every four years.

### **2.7. BORROWING COSTS**

Borrowing costs that are directly attributable to acquisition or production of adapted assets are added to the production costs of such tangible fixed assets until the latter are put to use. These costs are reduced by gains resulting from temporary investment of funds obtained for manufacturing the specified asset.

Borrowing costs include interest and other costs incurred by the Company due to borrowing.

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Any other costs of third party financing are carried directly to profit or loss in the period in which they occurred.

## **2.8. LEASES**

Finance lease occurs when the lease contract transfers substantially all the risks and rewards of ownership of the asset to the lessee.

Any other kind of lease contract is treated as operating lease.

Assets used under finance lease contracts are qualified in the same way as the Company's other assets. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value or the present value of the minimum lease payments. Lease payments should be split into the principal part and interest part so as to produce a fixed rate of interest on the outstanding lease payments.

Outstanding lease payments are presented as financial liabilities divided into short- and long-term components.

Depreciation methods applied to leased assets are consistent with the accounting policies applied to the Company's own assets, specified in sections 2.5 and 2.6. If there is no reasonable certainty that the lessee will acquire ownership of an asset by the end of the term of lease, the asset is depreciated over the shorter of the following periods: duration of the lease contract or useful life of the asset.

Minimum lease payments made under finance leases are apportioned between finance costs and reduction of outstanding debt. The finance expense is allocated to each period during the lease term so as to produce a fixed periodic rate of interest on the outstanding balance of the liability.

Contingent lease payments are presented through adjustment of minimum lease payments over the remaining term of the lease when the adjustment is confirmed.

If the Company uses any assets under operating leases, such assets are not recognized in the statement of financial position. Operating lease payments are carried to profit or loss for the duration of the lease according to straight-line method. Special promotional offers are presented as an integral part of total costs of lease throughout the term of lease, accordingly.

## **2.9. INVESTMENT PROPERTY**

Investment property comprises property held as a source of income from rent and/or for the anticipated increase of value.

Investment property items are initially measured at acquisition price or production cost, after transaction closing costs. As at the reporting date, investment property is measured at the acquisition price or production cost less accumulated depreciation and any accumulated impairment losses, calculated according to the rules applicable to tangible fixed assets.

## **2.10. SHARES IN ASSOCIATES, SUBSIDIARIES AND COMPANIES UNDER COMMON CONTROL**

Shares are measured at acquisition prices. In the event of impairment, not later than as at the reporting date, impairment is written off the value of shares, accordingly.

If there is evidence of impairment in respect of investments in subsidiaries, the Company performs tests for impairment, for which investments in subsidiaries are represented by assets and liabilities controlled by the Company. When determining the value in use, the

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Company takes into account the cash flows generated by the assets and liabilities held by subsidiaries.

## 2.11. LONG-TERM RECEIVABLES

Long-term receivables comprise receivables due within more than 1 year of the end of the reporting period.

The part of long-term receivables which fall due within one year after the end of the reporting period is presented as current receivables.

Long-term receivables are mostly deposits paid for long-term site rental contracts, bank guarantees as well as prepayments for tangible fixed assets.

### Measurement of long-term receivables

As at the reporting date, long-term receivables are measured at amortized cost using effective interest rate less revaluation allowances, if any.

## 2.12. LONG-TERM PREPAYMENTS

Long-term prepayments are reviewed as at each reporting date.

Valuation is carried out by the Company, taking into consideration certain reasonable criteria and knowledge of the individual prepayments.

Long-term prepayments include but are not limited to:

- Rentals,
- IT licenses,
- Alcohol sales licenses.

## 2.13. NON-CURRENT ASSETS AND ASSET GROUPS HELD FOR SALE

Non-current assets and groups of assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

The Company classifies a non-current asset or disposal group as held for sale when its carrying amount is to be recovered principally through a sale transaction rather than through its continued use.

This situation takes place if the following conditions are fulfilled:

- the asset (or disposal group) is available for immediate sale as is, under normal and customary terms of sales of such types of assets (or disposal groups), and its sale is very probable;
- there must be a commitment to fulfill the plan to sell the asset (or disposal group) taken by an appropriate level of management;
- a proactive plan to find a buyer and fulfill the plan has been initiated
- the asset (or disposal group) must be actively marketed at a price that is reasonable in relation to the asset's current fair value
- sale will be presented as closed within one year of the classification of assets or a disposal Company as held for sale and activities required to fulfill the plan indicate that significant changes to the plan or abandonment of the plan in the future is unlikely.

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Intangible and tangible fixed assets classified as assets for sale or issue are not amortized. In addition, after recognition of investments carried according to equity method to assets available for sale or issue, this method of presentation shall be discontinued.

## 2.14. INVENTORIES

Inventories of the Company include:

- Merchandise acquired and held for resale in the ordinary course of business,
- Materials or supplies purchased to be consumed for own use.

### Rules of determination of purchase price

Purchase prices are determined using the weighted average method. Under the weighted average, the purchase price or production cost of each item is calculated on the basis of the weighted average of purchase prices or production costs of similar items at the start of the period and the purchase prices or costs of similar items purchased or produced during the period. The weighted average is converted when goods are taken to the warehouse.

The Company applies the same method to determine purchase prices for all items of inventories.

Acquisition cost comprises all purchase costs and other costs incurred in order to bring inventories to their current location and condition.

Purchase costs comprise the actual purchase price, import duties, other non-deductible taxes, costs of transport, loading and unloading, and other costs directly attributable to merchandise.

Cash, value or volume discounts and rebates (bonuses from suppliers counted on turnover) are deducted when determining the acquisition cost.

### Measurement of inventories as at the end of the reporting period

Inventories are measured at acquisition price or production cost not exceeding the net realisable value. Net realisable value is the estimated sale price in the ordinary course of business less the estimated cost of completion and effectuating the sale.

The Company identifies the following circumstances that lead to writing down impairment of inventories to the level of net realisable value:

- loss of functional quality of inventories (damage, obsolete, etc.)
- a level of inventories exceeding the demand and selling possibilities
- low turnover of inventories
- loss of market value caused by sales prices of inventories falling below their carrying amounts

If the value determined at acquisition cost is higher than the net selling price as 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 recognized in costs of goods sold.



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## 2.15. NON-DERIVATIVE FINANCIAL INSTRUMENTS

### Valuation for the moment of initial recognition

At the moment of initial recognition, financial instruments are measured at fair value, increased, in the case of investments not classified as at fair value through profit or loss, by transaction costs that may be directly attributed to the purchase or issue of a financial instrument.

### Discontinuation of recognition

The Company ceases to recognize a financial asset in the statement of financial position in the event of the expiry of the right to receive economic benefits and incur related risks or transfer them to third parties.

### Valuation after initial recognition

For the purpose of valuation after initial recognition, financial assets are classified in one of four categories:

- Debt instruments measured at amortized cost,
- Debt instruments measured at fair value through other comprehensive income,
- Equity instruments measured at fair value through other comprehensive income,
- Financial assets at fair value through profit or loss.

#### Debt instruments - financial assets at amortized cost

A financial asset is measured at amortized cost if both of the following conditions are met:

- (a) the financial asset is held in accordance with the business model, the purpose of which is to maintain financial assets for obtaining cash flows arising from the contract, and
- (b) the contractual terms relating to a financial asset cause cash flows to occur at specified times, which are only repayment of the principal and interest on the principal outstanding.

In the category of financial assets measured at amortized cost, the Company classifies:

- trade receivables,
- loans held to obtain cash flows,
- cash and cash equivalents.

Interest income is calculated using the effective interest rate method and is shown in the profit and loss account under the item Financial income.

#### Debt instruments - financial assets at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- a) the financial asset is maintained in accordance with the business model, which is aimed both at receiving cash flows resulting from the agreement and the sale of financial assets; and
- (b) the contractual terms relating to a financial asset cause cash flows to occur at specified times, which are only repayment of the principal and interest on the principal outstanding.

Interest income, foreign exchange differences and impairment gains and losses are recognized in profit or loss and calculated in the same way as financial assets measured at amortized cost. Other changes in fair value are recognized in other comprehensive income. Upon cessation of the recognition of a financial asset, the total profit or loss previously recognized in other comprehensive income is reclassified from equity to the financial result. Interest income is calculated using the effective interest rate method and is shown in the profit and loss account under the item Financial income.



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In the category of debt instruments measured at fair value through other comprehensive income, the Company qualifies loans that arise from financing needs in the Company.

#### **Capital instruments - financial assets at fair value through other comprehensive income**

At the moment of initial recognition, the Company may make an irrevocable choice regarding the recognition in other comprehensive income of subsequent changes in the fair value of investments in an equity instrument that is not intended for trading or is a conditional consideration recognized by the acquirer in the merger of entities to which IFRS 3 applies. This choice is made separately for each equity instrument. Accumulated profits or losses previously recognized in other comprehensive income are not reclassified to profit or loss. Dividends are recognized in the profit and loss account when the entity's right to receive dividends is established, unless these dividends clearly represent the recovery of part of the investment costs.

In the category of equity instruments measured at fair value through other comprehensive income, the Company qualifies shares in other entities, purchased options, warrants.

#### **Financial assets at fair value through profit or loss**

A financial asset that does not meet the measurement criteria at amortized cost or at fair value through other comprehensive income is measured at fair value through profit or loss. The gain or loss on the valuation of debt investments at fair value is recognized in profit or loss.

Dividends are recognized in the profit and loss account when the entity's right to receive dividends arises.

In the category of equity instruments measured at fair value through the financial result, the Company qualifies shares of other entities.

In a situation where the Company:

- has a valid legal title to offset the amounts included and
- it intends to settle on a net basis or at the same time realize an asset and perform an obligation

the financial asset and financial liability are compensated and disclosed in the statement of financial position at the net amount.

The framework agreement described in IAS 32.50 does not constitute grounds for compensation if both criteria described above are not met.

#### **Financial liabilities**

Subsequent to initial recognition financial liabilities are measured at amortised cost using the effective interest method, excluding:

- (a) financial liabilities designated as at fair value through profit or loss,
- (b) financial liabilities recognized as a result of reclassification of financial assets that are not qualified to be derecognized,
- (c) financial guarantees contracts,
- (d) obligations to grant low-interest or interest-free loans.

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## 2.16. DERIVATIVES

The Company uses derivatives to hedge its foreign currency and interest rate risk exposure. 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, or if a separate instrument with the same terms as the embedded derivative meets the definition of a derivative, or if a hybrid instrument is not measured at fair value through net profit or loss.

At the time of initial recognition of the hedging position, the Company 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 effectiveness of the hedging instrument.

The hedge is assessed by the Company at the inception and on an ongoing basis in terms of whether there continue to exist reasonable grounds to expect that the hedging instruments will remain "highly effective" in compensating for any changes in fair value or cash flows attributable to the specific items hedged throughout the period for which the hedge is established, and whether the actual value of each hedge is within the range of 80-125%.

Hedging of future transaction cash flows is applied to highly probable future transactions exposed to cash flow changes risk that would be recognized as a profit or loss of the 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 Company measures derivatives at fair value. Gains and losses resulting from any change of fair value are recognized in the way described below.

### *Cash flow hedges*

When a derivative is designated as a hedge of cash flows attributable to a particular asset, liability or a highly probable scheduled transaction involving third parties, the part of gains and losses related to the hedge which constitutes the effective hedge is recognized in other comprehensive income and presented in the hedging reserve in equity. Any ineffective part of gains or losses related to the hedging instrument is recognized immediately in the income statement.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, hedge accounting is discontinued by the Company. Any cumulative gain or loss previously recognized in other comprehensive income and presented in equity remains there until the transaction is closed and presented in the income statement accordingly. When the hedged item is not a financial asset, its value will be adjusted at the time of presentation by amounts previously recognized in other comprehensive income. Otherwise, amounts carried to other comprehensive income are recognized in profit or loss in the same period(s) in which the hedged item affects profit or loss of the period.

### *Other non-trading derivatives*

When a derivative financial instrument is not held for trading and is not designated as a hedging instrument, all changes in its fair value are recognized immediately as profit or loss of the current period.

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## 2.17. TRADE RECEIVABLES AND OTHER SHORT-TERM RECEIVABLES

### Trade receivables

Trade receivables comprise receivables resulting from realized supplies or rendered services, due within 12 months.

### 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 as at the end of the reporting period

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

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

### Measurement of receivables denominated in foreign currency as at the end of the reporting period

Foreign currency receivables are translated at least as at every reporting date, at the spot rate of exchange. Foreign exchange differences related to foreign currency receivables are recognized as other finance incomes or other finance costs, respectively.

### Bad debts allowance

Allowances for bad debt are established for:

- receivables from debtors put into liquidation or declared bankrupt - up to the amount of the debts not covered by a guarantee or other payment security,
- receivables from debtors whose petition for bankruptcy has been dismissed if the given debtor's property is not sufficient to cover the costs of bankruptcy proceedings – up to the full amount,
- debts disputed by debtors - up to the amount of debt not covered by payment security,
- debts overdue or not yet overdue but with a considerable degree of probability of aging – at the Company's reasonable estimate (based on past experience, reliable reviews, forecasts, etc.),
- debts claimed in court – at 100% of the amount receivable.

The amount of allowance derives not only from events that took place before the reporting date but also events revealed subsequent to the date of the financial statements' authorization for publication by the Management Board, provided that those events relate to a debt presented in the accounts as at the reporting date.

Bad debt allowances are recognized in other operating expenses or financial costs if they concern interest debt.

## 2.18. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash at hand and in bank accounts as well as bank deposits payable on demand, other safe short-term investments with an original maturity of

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up to three months from the date of their establishment, receipt, acquisition or issue and high liquidity. Cash and cash equivalents also include interest on cash equivalents.

## 2.19. SHORT-TERM PREPAYMENTS

Short-term prepayments are analyzed at each reporting date. The assessment is made by the Company based on reasonable criteria and knowledge about each prepayment.

Short-term prepayments include the short-term part of the following main items:

- rent prepayments,
- prepaid electricity and central heating,
- prepaid subscriptions, insurance,
- alcohol permissions,
- property tax,
- prepayments for other services (e.g. telecommunications),
- advance payments for lease of equipment.

## 2.20. IMPAIRMENT

### Financial assets (including receivables)

The Company assesses the expected credit losses related to debt instruments carried at amortized cost and fair value through other comprehensive income, irrespective of whether there is any indication of impairment.

The factors determining the impairment of financial assets (including equity instruments) are included:

- default or delinquency by a debtor, whereas the Company regularly monitors the debtors ability to repay their debts,
- restructuring of the debtor's debt which was approved by the Company for economic or legal reasons concerning the debtor's financial problems which the Company would not have approved otherwise;
- indication that the debtor or Company is highly probable to be pronounced bankrupt;
- an active market for the given financial asset ceases to exist;
- significant or prolonged decline in recoverable value of an investment in equity instruments below acquisition price.

The Company considers evidence of impairment of receivables and held-to-maturity investments at the level of specific asset as well as for asset groups. All individually significant receivables and held-to-maturity investments are assessed for specific impairment.

All individually significant receivables and held-to-maturity investments found not to be specifically impaired are then collectively assessed for any impairment not identified otherwise. Receivables and held-to-maturity investments without individually significant values are collectively assessed for impairment by grouping together items with similar risk characteristics.

In assessing risk of impairment for asset groups, the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for Management's assessment as to whether current economic and credit conditions are such that the actual losses are likely to differ greatly from those 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

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cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and they reduce the carrying value of receivables, while the Company continues charging interest on updated assets. When a subsequent event indicate that the circumstances causing the impairment have disappeared, then reversal of impairment is presented as net profit or loss of the current period.

Impairment losses on available-for-sale financial assets are recognized by transferring the cumulative loss previously recognized in other comprehensive income as revaluation capital and presented in the fair value reserve in equity, to profit or loss of the current period. The cumulative loss referred to above is calculated as the difference between the acquisition cost, net of any principal repayment and amortization, and fair value less any impairment loss previously recognized in the income statement. Changes in impairment attributable to time value of money are reflected as interest income.

If, in subsequent periods, the fair value of an impaired available-for-sale debt security increases and the increase can be attributed objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed, with the amount of the reversal recognized in the income statement. Reversal of impairment of fair value of capital instruments available for sale will be recognized in other comprehensive income.

#### **Non-financial assets**

The carrying amounts of non-financial assets other than investment property, inventories and deferred tax assets, are reviewed as at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated by the Company. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, recoverable amounts are estimated as at the end of each financial year.

The recoverable amount of an asset or cash-generating unit is the greater of its net realizable value and its value in use. In assessing the value in use, estimated future cash flows are discounted 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 are grouped together into the smallest groups of assets that generate cash inflows that are largely independent of other assets or groups of assets (cash-generating units; CGUs).

For the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment tests are conducted reflects the lowest level of organization at which goodwill is monitored by the Company for internal reporting purposes.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to those CGUs that are expected to benefit from the synergies of the combination.

Shared assets do not generate separate cash inflows. If there is an indication that a shared asset may be impaired, then the recoverable amount is determined for the CGUs to which the shared assets belong.

An impairment loss is recognized when the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are presented first as reduction of the carrying amount of any goodwill allocated to the units (group of units) and then as reduction of the carrying amounts of other assets in the unit (group of units) on a pro rata basis.

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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 impairment 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.

## 2.21. EQUITY

### Ordinary shares

Ordinary shares are classified as equity. Costs directly attributable to issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

### Repurchase of treasury shares

In the case of purchase of treasury shares, 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 a separate item of shareholders' equity with a minus sign. When treasury shares are sold or reissued subsequently, the amounts received are recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

Funds are reserved for repurchase of treasury shares based on a resolution adopted by the Shareholders' Meeting and presented in equity as separate capital reserves.

## 2.22. 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 surfaces

### Measurement of long-term liabilities

At as the end of the reporting period, long-term liabilities are measured at amortized cost using the effective interest rate method.

### Measurement of long-term liabilities denominated in foreign currency as at the reporting date

Foreign currency liabilities are measured at least as at the end of the reporting period using the spot exchange rate.

Foreign currency gains and losses concerning foreign currency long-term liabilities and occurring as at the measurement date are recognized as financial incomes or costs accordingly.

## 2.23. SHORT-TERM LIABILITIES

Short-term liabilities comprise liabilities due to be settled within 12 months from the end of reporting period (not applicable to trade payables).

Short-term liabilities include in particular:

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- loans and borrowings payable,
- finance lease liabilities,
- trade payables,
- taxation, social security and other benefits payable,
- payroll payables,
- liabilities due to financing of franchisees.

As part of trade payables, the Group presents liabilities covered by reverse leasing.

#### **Measurement of short-term liabilities as at the reporting date**

At the reporting date, short-term liabilities are measured at amortized cost using the effective interest rate.

#### **Measurement of short-term liabilities denominated in a foreign currency as at the reporting date**

Foreign currency liabilities are measured at least as at the end of the reporting period using the spot exchange rate.

Foreign currency gains and losses concerning foreign currency short-term liabilities, occurring as at the date of their valuation, should be recognized as financial incomes or expenses accordingly.

### **2.24. BORROWINGS**

The Company initially recognizes bank and other loans and debt securities at fair value of cash received less any borrowing costs.

Subsequent to initial recognition, loans and debt securities are measured at amortized cost using the effective interest rate.

### **2.25. PROVISIONS**

Provisions are recognized if, as a result of past events, the Company has a present obligation (under the law or custom) that can be estimated reliably, and it is likely that an outflow of economic benefits will be required to settle the obligation.

Provisions are determined by discounting expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and risks specific to the liability.

Provisions may be disbursed according to the time flow or the value of the related services. The time and method of settlement should be adequate to the nature of expenses in line with the precautionary principle.

Provisions reduce the expenses of the reporting period in which it was confirmed that the liabilities had not arisen.

### **2.26. SALES**

The Company applies IFRS 15 Revenue from contracts with clients to all contracts with clients, with the exception of leasing agreements covered by the scope of IFRS 16 Leases, financial instruments and other contractual rights and obligations falling within the scope of IFRS 9 Financial Instruments, IFRS 1 Consolidated Financial Statements, IFRS 11 Joint Findings contractual, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures.

The basic principle of IFRS 15 is the recognition of revenues at the moment of the transfer of goods and services to the client, in a value reflecting the price expected by the entity, in exchange for the transfer of goods and services.



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These rules are applied using the five-step model:

- a contract with the client has been identified,
- commitments to perform the service under the contract with the client have been identified,
- the transaction price was determined,
- the transaction price was allocated to individual liabilities and performance of the service,
- revenues are recognized when the contractual obligation is fulfilled.

#### **Identification of the contract with the client**

The Company recognizes the contract with the client only if all of the following criteria are met:

- the parties to the contract have entered into a contract (in writing, or in accordance with other usual commercial practices) and are required to perform their duties,
- The Company is able to identify the rights of each party regarding the goods or services to be transferred,
- The Company is able to identify the payment terms for goods or services to be transferred,
- the contract has economic content (i.e. it can be expected that the contract will change the risk, the time schedule or the amount of future cash flows of the entity),
- it is probable that the Company will receive a remuneration which it will be entitled to in exchange for goods or services that will be transferred to the client.

When assessing whether the receipt of the amount of remuneration is probable, the Company only considers the ability and intention to pay the amount of remuneration by the client in a timely manner. The amount of remuneration that will be due to the Company may be lower than the price specified in the contract if the remuneration is variable, because the entity may offer the customer a price concession.

#### **Determining the transaction price**

In order to determine the transaction price, the Company takes into account the terms of the contract and the usual commercial practices. The transaction price is the amount of remuneration which, in line with the Company's expectations, will be payable in exchange for the transfer of promised goods or services to the client, with the exception of amounts collected on behalf of third parties (eg certain sales taxes). The remuneration specified in the contract with the client may include fixed amounts, variable amounts or both types of amounts.

#### **Variable remuneration**

If the remuneration specified in the contract includes a variable amount, the Company estimates the amount of remuneration to which it will be entitled in exchange for the transfer of the promised goods or services to the client. The Company estimates the amount of variable remuneration using one of the following methods, depending on the type of contract:

- expected value - the sum of the products of the possible remuneration amounts and the corresponding probabilities of occurrence. The expected value may be an appropriate estimate of the amount of variable remuneration if the Company has a large number of similar contracts,
- the most probable value - it is the single most probable amount from the range of possible remuneration amounts (ie the single most probable outcome of the contract). The most likely value may be an appropriate estimate of the amount of variable remuneration if the contract has only two possible outcomes (eg the Company either earns a performance bonus or not).

#### **Assigning the transaction price to the obligations to perform the service**



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The Company assigns a transaction price to each obligation to provide the service (or a separate good or separate service) in an amount that reflects the amount of remuneration which, as expected by the Company, is due in exchange for the transfer of promised days and services to the client.

#### **Fulfilling obligations to perform the service**

The Company recognizes revenue when it meets (or in the course of fulfilling) the obligation to perform the service by transferring the promised good or services to the client.

#### **Remuneration of the principal and remuneration of the intermediary**

If another entity is involved in providing goods or services to the customer, the Company determines whether the nature of the Company's promise is an obligation to provide certain goods or services (in this case the Company is the principal) or on behalf of another entity to provide these goods or services (in this case the Company is an intermediary).

The Company is the principal if it exercises control over the promised good or service prior to their commandment to the client. However, an entity does not have to act as principal if it obtains a legal title to the product only temporarily before it is transferred to the customer. An entity appearing in the contract as the principal may itself fulfill the obligation to perform the service or may entrust the fulfillment of this obligation or part thereof to another entity (eg subcontractor) on its behalf. In this situation, the Company recognizes revenue in the gross amount of remuneration to which it is expected to be entitled in exchange for goods or services transferred.

The Company acts as an intermediary if its obligation to perform the service consists in ensuring delivery of goods or services by another entity. In such a case, the Company recognizes revenue in the amount of any fee or commission to which it is expected to be entitled in exchange for ensuring delivery of goods or services by another entity.

#### **Variable remuneration**

Some contracts with clients include variable amounts of remuneration, including in connection with the granting of discounts, rebates, penalties.

If the remuneration specified in the contract includes a variable amount, the entity estimates the amount of remuneration to which it will be entitled in exchange for the transfer of promised goods or services to the client and includes part or all of the variable remuneration in the transaction price only to the extent that it is highly probable that there will be no reversal of a significant part of the amount of previously recognized accumulated revenues at the time when the uncertainty about the amount of variable remuneration is flat.

## **2.27. FINANCE INCOMES AND COSTS**

Finance income comprises interest income from funds invested (including available-for-sale financial assets), dividend income, gains on disposal of available-for-sale financial assets, changes in fair value of financial assets measured through profit or loss, and gains on hedging instruments that are recognized in the income statement.

#### **Interest income**

Interest incomes are recognized as accrued, with reference to the principal amount payable, according to the accruals principle, using the effective interest rate method.

#### **Dividend income**

Dividend income is recognized on the date the shareholders' entitlement to receive dividend is established.

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Finance costs comprise interest expenses on borrowings, unwinding of the discount on presented provisions, changes in the fair value of financial instruments carried through profit or loss, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in the income statement.

Borrowing costs that are not directly attributable to the acquisition, manufacture, construction or production of specified assets are recognized in the income statement using the effective interest rate method.

Foreign currency gains and losses are reported as net amounts, as finance incomes or expenses, according to their total net position.

#### **Disposal of the unit**

The result on the sale of subsidiaries is presented by the Company in the profit and loss account in financing activities.

### **2.28. EMPLOYEE BENEFITS**

#### **Long-term employee benefits**

The Company recognizes expenses concerning pension plans and other employee benefits for the post-employment period in its financial statements by setting up a provision for pensions.

Provisions for post-employment benefits are established using the projected unit credit method. Calculation according to actuarial forecast of unit rights is performed by a certified actuary. Liabilities recognized on an accruals basis and measured as those discounted future payments that employees have earned as at the reporting date, adjusted by personnel and demographic movement indexes.

#### **Short-term employee benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed during the period of service.

The Company recognizes this liability as the amount expected to be paid to employees as short-term cash bonuses or profit-sharing plans if the Company has a present obligation, by law or custom, to make such payments as a result of a past service provided by the employee, and the obligation can be estimated reliably.

### **2.29. SHARE-BASED PAYMENTS**

Share-based payment schemes enable employees to take up the Company's shares. Fair value of granted options for shares is recognized as a separate position in profit or loss as cost of manager shares scheme, with a corresponding increase in equity (reserve capital). Fair value is measured as at the grant date and recognized over the period that the employees become unconditionally entitled to realize the options. 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 fulfilled.

Fair value of employee share options is measured using the Black-Scholes formula. Measurement inputs include the share price as at the measurement date, exercise price of the instrument, expected volatility (based on the weighted average historical volatility adjusted for changes expected due to publicly available information), expected weighted average life of the instruments (based on historical experience and general option holders' behavior), 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.

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## 2.30. INCOME TAX

Income tax covers the current and deferred part. Current and deferred income tax is recognized as profit or loss of the current period, except when it concerns a business combination and items recognized directly in equity or as other comprehensive income.

Current tax is the expected amount of liabilities or receivables due to tax on taxable income for a given reporting period, calculated on the basis of the tax result (tax base) of a given reporting period and adjusted by adjustments of tax liability regarding previous reporting periods. Tax income differs from gross book profit (loss) due to the exclusion of certain categories of balance sheet revenues as not subject to taxation and balance sheet expense, not constituting tax deductible costs and items of costs and revenues that will never be subject to taxation or reduce the tax base in subsequent years. Tax burdens are calculated based on tax rates applicable in a given reporting period.

Deferred tax is calculated using the balance sheet method as a tax to be paid or returned in the future on temporary differences between the balance sheet values of assets and liabilities and the corresponding tax values used to calculate the tax base.

Deferred tax provision is created from all positive temporary differences

- except when the provision for deferred tax arises as a result of the initial recognition of goodwill or initial recognition of an asset or liability when a transaction is not a business combination and does not affect gross profit or loss or taxable income or tax loss, and
- in the case of positive temporary differences arising from investments in subsidiaries or affiliates and interests in joint ventures - except when the dates of reversal of temporary differences are subject to investor control and when it is probable that the temporary differences will not be reversed in the foreseeable future.
- Deferred tax assets are recognized for all deductible temporary differences as well as unused tax credits and unused tax losses carried forward to the following years, in the amount in which it is probable that taxable income will be achieved, which will allow to use the abovementioned taxable profit. differences, assets and losses
- except when deferred tax assets related to deductible temporary differences arise as a result of the initial recognition of an asset or liability when a transaction is not a business combination and have no effect on gross profit or loss or taxable income tax loss, and
- in case of negative temporary differences due to investments in subsidiaries or affiliates and shares in joint ventures, the deferred tax asset is recognized in the balance sheet only in the amount in which it is probable that in the foreseeable future the above-mentioned temporary differences will be reversed and taxable income will be achieved, which will allow deduction of negative temporary differences.

The value of deferred tax assets is analyzed at the end of each reporting period, and if the expected future tax profits are not sufficient to realize an asset or its part, it is recognized to the realizable value.

Deferred tax assets and deferred tax provisions are valued using tax rates that are expected to apply in the period when the asset is realized or the provision is released, based on tax

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rates (and tax regulations) in force as at the balance sheet date or those whose validity is certain in the future as at the balance sheet date.

Income tax relating to items recognized outside profit or loss is recognized outside profit or loss: in other comprehensive income, for items recognized in other comprehensive income or directly in equity for items recognized directly in equity.

Deferred income tax assets and deferred tax liabilities are offset if the Company has a legally enforceable right to offset current tax liabilities and assets and provided that the deferred income tax assets and reserves relate to income tax imposed by the same tax authority for the same taxpayer.

## **2.31. UNCERTAIN TAX TREATMENT**

If according to the Company's assessment it is probable that the tax authorities will accept an uncertain tax treatment or a group of uncertain tax treatments, the Company 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 Company ascertains that it is not probable that the tax authorities will accept an uncertain tax treatment or a group of uncertain tax treatments, the Company reflects the impact of this uncertainty in determining taxable income (tax loss), unused tax losses, unused tax credits or tax rates. The Company 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. EARNINGS PER SHARE**

The Company 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 by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held by the Company. Diluted EPS is determined by dividing the adjusted profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding, the latter as adjusted for own shares held and for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

## **2.33. MERGERS OF JOINTLY CONTROLLED ENTITIES**

Acquired assets and liabilities connected with merger of companies under joint control of a shareholder which at the same time controls the Group are presents at book values in the consolidated financial statements of Eurocash S.A. Group.

Differences from the mergers are referred to the equity.

## **2.34. OPERATING SEGMENTS**

The Company decided not to present operating segment data in its separate financial statements.

Detailed information and financial data about operational segments are presented in the consolidated financial statements of Eurocash S.A. Group.

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### 3. NOTES TO SEPARATE FINANCIAL STATEMENTS PREPARED FOR THE PERIOD FROM 01.01.2018 TO 31.12.2018

#### NOTE 1.

##### **SALE OF 100% SHARES IN PAYUP POLSKA S.A.**

On 19 December 2018 was concluded the final agreement to sell 100% shares of PayUp Polska S.A. with its registered office in Komorniki to Centrum Rozliczeń Elektronicznych Polskie E-Płatności S.A.

The fair value of transaction price was valued at PLN 85,6 million.

As at the date of sale, assets of PayUp Polska S.A. amounted to PLN 47 million, equity PLN 5 million, liabilities in total of PLN 42 million.

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

#### NOTE 2.

##### **RESTATEMENT OF COMPARATIVE DATA**

The restatement of comparative data is related to the change in the recognition of revenues from the sale of goods and services and their cost in connection with the application of IFRS 15 and has no impact on the operating result of the Company.

The change in the presentation concerns mainly the issue of determining the sale of separate goods and services.

In accordance with IFRS 15, the Company identifies liabilities to perform the service and determines whether individual transactions with a given contractor constitute separate goods or services.

As a result of the change in presentation on this account, revenues from the sale of goods were adjusted by PLN 283,8 million and revenues from sale of services by PLN 917,2 million.

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	The amount in the approved report for the period from 01.01.2017 to 31.12.2017	Correction for the period from 01.01.2017 to 31.12.2017	The corrected amount for the period from 01.01.2017 to 31.12.2017
<b>Sales</b>	<b>14 859 167 869</b>	<b>(1 201 125 641)</b>	<b>13 658 042 229</b>
Sales of goods	13 864 239 157	(283 872 004)	13 580 367 154
Sales of services	994 928 712	(917 253 637)	77 675 075
<b>Costs of sales</b>	<b>(13 314 804 513)</b>	<b>1 201 125 641</b>	<b>(12 113 678 872)</b>
Cost of goods and services sold	(13 314 804 513)	1 201 125 641	(12 113 678 872)
<b>Gross profit (loss)</b>	<b>1 544 363 357</b>	<b>-</b>	<b>1 544 363 357</b>
Selling expenses	(1 201 890 746)	-	(1 201 890 746)
General and administrative expenses	(257 739 539)	-	(257 739 539)
<b>Profit (loss) on sales</b>	<b>84 733 071</b>	<b>-</b>	<b>84 733 071</b>
Other operating income	42 278 532	-	42 278 532
Other operating expenses	(149 021 257)	-	(149 021 257)
<b>Operating profit (loss)</b>	<b>(22 009 654)</b>	<b>-</b>	<b>(22 009 654)</b>

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### NOTE 3.

#### GOODWILL AND INTANGIBLE ASSETS

The table below presents intangible asset data.

#### INTANGIBLE FIXED ASSETS IN THE PERIOD FROM 01.01 TO 31.12.2018

	Goodwill	Patents and licences	Trademarks	Relations with clients	Other intangible fixed assets	Advances	Total
<b>Carrying amount as at 01.01.2017</b>	<b>862 819 840</b>	<b>36 082 686</b>	<b>293 460 229</b>	<b>205 949 864</b>	<b>4 521 206</b>	<b>1 454 907</b>	<b>1 404 288 731</b>
Other acquisitions	-	18 376 819	4 292 712	-	-	11 877 185	34 546 716
Increases due to the transfer of fixed assets under construction	-	2 764 691	-	-	-	-	2 764 691
Decrease due to sale	-	(12 757)	-	-	(3 267)	-	(16 024)
Decrease due to the transfer of fixed assets under construction	-	-	-	-	-	(1 115 065)	(1 115 065)
Depreciation	-	(18 564 390)	(2 000 000)	(17 537 507)	(1 648 398)	-	(39 750 295)
<b>Carrying amount as at 31.12.2017</b>	<b>862 819 840</b>	<b>38 647 049</b>	<b>295 752 941</b>	<b>188 412 357</b>	<b>2 869 541</b>	<b>12 217 027</b>	<b>1 400 718 756</b>
<b>Carrying amount as at 01.01.2018</b>	<b>862 819 840</b>	<b>38 647 049</b>	<b>295 752 941</b>	<b>188 412 357</b>	<b>2 869 541</b>	<b>12 217 027</b>	<b>1 400 718 756</b>
Other acquisitions	-	12 262 620	-	-	391 175	13 465 254	26 119 049
Transfer of fixed assets under construction	-	4 259 639	-	-	77 900	(3 781 312)	556 227
Decrease due to sale	-	(2 873)	-	-	-	-	(2 873)
Depreciation	-	(19 633 505)	(2 000 000)	(17 537 507)	(2 343 585)	-	(41 514 598)
<b>Carrying amount as at 31.12.2018</b>	<b>862 819 840</b>	<b>35 532 929</b>	<b>293 752 941</b>	<b>170 874 850</b>	<b>995 031</b>	<b>21 900 970</b>	<b>1 385 876 562</b>

Separate financial statements of EUROCASH S.A.			
Financial statements period:	1 January -31 December 2018	Presentation currency:	Polish zloty (PLN)
Level of round-offs:	All amounts are expressed in Polish zloty (unless indicated otherwise)		

#### INTANGIBLE FIXED ASSETS IN THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2018 (continued)

	Goodwill	Patents and licences	Trademarks	Relations with clients	Other intangible fixed assets	Advances	Total
<b>As at 31.12.2017</b>							
Cost	862 819 840	154 876 962	316 209 364	256 297 960	19 794 249	12 217 027	1 622 215 401
Accumulated amortisation and impairment losses	-	(116 229 913)	(20 456 423)	(67 885 603)	(16 924 707)	-	(221 496 645)
<b>Carrying value</b>	<b>862 819 840</b>	<b>38 647 049</b>	<b>295 752 941</b>	<b>188 412 357</b>	<b>2 869 541</b>	<b>12 217 027</b>	<b>1 400 718 756</b>
<b>As at 31.12.2018</b>							
Cost	862 819 840	171 396 348	316 209 364	256 297 960	20 263 324	21 900 970	1 648 887 805
Accumulated amortisation and impairment losses	-	(135 863 418)	(22 456 423)	(85 423 110)	(19 268 293)	-	(263 011 244)
<b>Carrying value</b>	<b>862 819 840</b>	<b>35 532 930</b>	<b>293 752 941</b>	<b>170 874 850</b>	<b>995 031</b>	<b>21 900 970</b>	<b>1 385 876 561</b>

Goodwill presented in intangible assets arose as a consequence of:

- acquisition by Eurocash S.A. of an organized part of "Carment M. Stodółka i Wspólnicy Spółka Jawna" enterprise as at 16.08.2006 in the amount of PLN 9,975,600,
- merger with Przedsiębiorstwo Handlowe Batna Sp. z o.o. as at 01.07.2010 in the amount of PLN 29,180,412,
- merger with Eurocash Dystrybucja Sp. z o.o. as at 01.09.2010 in the amount of PLN 56,868,456,
- acquisition of organized part of the business of Premium Distributors Sp. z o.o. as at 01.10.2013 in the amount of PLN 226,352,528,
- merger with Tradis Sp. z o.o. as at 04.04.2014 in the amount of PLN 529,014,483,
- merger with PolCater Sp. z o.o. as at 01.10.2014 in the amount of PLN 11,428,360.

The Company has the following trademarks with indefinite useful lives:

- the trademark "Eurocash" with a book value of PLN 179,000,000,
- the trademark "abc" with a book value of PLN 110,000,000.

Apart from the above mentioned trademarks, there is another trademark recognized in the Company's ledgers: "Batna", with a defined useful life.

Amortization of intangible assets was recognized in its entirety as selling expenses and general and administrative expenses.

The Company did not recognize any impairment losses in relation to intangible assets; this issue is discussed in more detail in Note 5.



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Level of round-offs:	All amounts are expressed in Polish zloty (unless indicated otherwise)		

#### NOTE 4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment items are presented below:

	Land and buildings	Plant and equipment	Vehicles	Other fixed assets	Fixed assets under construction	Total
<b>Carrying amount as at 01.01.2017</b>	<b>277 068 378</b>	<b>85 652 178</b>	<b>16 273 340</b>	<b>59 925 755</b>	<b>6 292 173</b>	<b>445 211 824</b>
Other acquisitions	10 644 951	31 704 941	6 303 145	20 625 565	34 978 212	104 256 814
Increases due to the transfer of fixed assets under construction	6 320 971	483 091	-	917 038	(9 370 726)	(1 649 626)
Finance lease	-	-	10 971	-	-	10 971
Disposals	(1 471)	(70 763)	(172 326)	(870 030)	(3 490 785)	(4 605 375)
Liquidations	(1 441 138)	(98 178)	(13 290)	(58 024)	(319 426)	(1 930 057)
Leasing decrease	(5 983 658)	-	(51 228)	-	-	(6 034 886)
Depreciation	(19 994 440)	(24 762 879)	(4 167 179)	(25 441 633)	-	(74 366 132)
<b>Carrying amount as at 31.12.2017</b>	<b>266 613 594</b>	<b>92 908 389</b>	<b>18 183 433</b>	<b>55 098 671</b>	<b>28 089 448</b>	<b>460 893 534</b>
<b>Carrying amount as at 01.01.2018</b>	<b>266 613 594</b>	<b>92 908 389</b>	<b>18 183 433</b>	<b>55 098 671</b>	<b>28 089 448</b>	<b>460 893 534</b>
Other acquisitions	15 395 310	20 480 289	4 096 038	13 042 631	15 649 437	68 663 706
Increases due to the transfer of fixed assets under construction	9 599 185	2 173 822	-	7 811 986	(20 141 220)	(556 227)
Finance lease	-	-	389 254	-	-	389 254
Disposals	(14 667)	(1 690 967)	(36 143)	(131 162)	(138 260)	(2 011 198)
Liquidations	(3 277 840)	(1 321 737)	(37 423)	(70 042)	(18 146)	(4 725 188)
Leasing decrease	-	-	(657 314)	-	-	(657 314)
Depreciation	(19 004 973)	(27 674 631)	(4 227 742)	(23 318 574)	-	(74 225 920)
<b>Carrying amount as at 31.12.2018</b>	<b>269 310 609</b>	<b>84 875 165</b>	<b>17 710 103</b>	<b>52 433 511</b>	<b>23 441 259</b>	<b>447 770 646</b>

Separate financial statements of EUROCASH S.A.			
Financial statements period:	1 January -31 December 2018	Presentation currency:	Polish zloty (PLN)
Level of round-offs:	All amounts are expressed in Polish zloty (unless indicated otherwise)		

#### PROPERTY, PLANT AND EQUIPMENT IN THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2018 (continued)

	Land and buildings	Plant and equipment	Vehicles	Other fixed assets	Fixed assets under construction	Total
<i>As at 01.01.2017</i>						
Cost	423 692 921	224 664 848	88 607 779	249 488 729	28 089 448	1 014 543 724
Accumulated amortisation and impairment losses	(157 079 327)	(131 756 459)	(70 424 346)	(194 390 058)	-	(553 650 191)
<b>Carrying amount</b>	<b>266 613 594</b>	<b>92 908 389</b>	<b>18 183 433</b>	<b>55 098 671</b>	<b>28 089 448</b>	<b>460 893 534</b>
<i>As at 31.12.2018</i>						
Cost	445 394 909	244 306 255	92 362 191	270 142 143	23 441 259	1 075 646 757
Accumulated amortisation and impairment losses	(176 084 300)	(159 431 090)	(74 652 088)	(217 708 633)	-	(627 876 111)
<b>Carrying amount</b>	<b>269 310 609</b>	<b>84 875 165</b>	<b>17 710 103</b>	<b>52 433 511</b>	<b>23 441 259</b>	<b>447 770 646</b>

#### Property, plant and equipment under finance lease

The Company uses mainly vehicles, and forklift trucks under finance lease. In each of these cases, the Company has the right to buy the assets after the lapse of the agreed term of lease for the price stated in the respective agreement, or to continue using the leased property under a new lease contract signed with the financing institution. The buyout price is the difference between the value of the leased property in case of immediate payment and the principal value repaid in lease instalments. As at the end of the reporting period, the carrying value of tangible fixed assets under finance lease was PLN 1.024.668 (31.12.2017: PLN 3.904.574), and the amount payable to the lessor in this respect was PLN 1.874.590 (31.12.2017: PLN 2.993.775). The leased items remain the property of the lessor (the financing institution) until they are acquired by the Company. Those assets are depreciated for tax purposes by the lessor.

The contracts do not include any provisions that would impose any obligations upon the Company concerning dividends, additional debt, or additional lease contracts. Performance of lease agreements is secured against the leased assets.

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Level of round-offs:	All amounts are expressed in Polish zloty (unless indicated otherwise)		

## NOTE 5. IMPAIRMENT TESTING OF ASSETS

For intangible assets with indefinite useful lives, the Company performed the following impairment tests:

- impairment test of the "Eurocash" trademark with a value of PLN 179,000,000 as at 31.12.2018,
- impairment test of the "abc" trademark with a value of PLN 110,000,000 as at 31.12.2018.

For the purpose of the test, the recoverable amount of the trademark was determined at the fair value less costs to sell using the license fees method.

Valuation method, by fair value decreased by cost of sales, based on license fees consists in determining the present value of future economic benefits derived by an entity from holding the title to a trademark. This method is based on the assumption that benefits derived from a trademark are equal to costs which would have to be incurred by an entity with no rights to the trademark (if the trademark had been used under an arm's length license agreement). Fair value was qualified to the 3rd hierarchy level.

The market level of license fees is determined based on projection of sales of products carrying the trademark and determining the rate of license fee for using that trademark. The rate of license fee is determined based on the analysis of trademark lease agreements concluded on arm's length terms.

Tests were carried out based on financial projections for the years 2019-2023. To determine the values of selected projection ratios, historical data was used for year 2018 and plans approved by the Management Board of Eurocash S.A. for the years 2019-2023.

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

The weighted average cost of capital - WACC (from 7.49%) was adopted as a discount rate. For the purpose of calculating the cost of capital..

Analyses confirmed that there was no necessity to recognize impairment loss.

As at 31.12.2018, the Company also performed impairment tests for individual goodwill recognized in the financial statements in the total amount of PLN 866,819.840 and determined the recoverable amounts of the cash generating centers to which these goodwill are allocated.

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

For each impairment test, the recoverable amount was determined as the value of the cash-generating unit under review, based on the financial projections for 2019-2023. In order to determine the selected projection parameters, historical data for 2018 and approved by the Management Board of Eurocash S.A. were used. plans for 2019-2023.

The test assumes the stabilization of flows, the discount rate used in cash flows is consistent with the weighted average cost of capital (WACC) calculated on the basis of the risk-free rate in accordance with the currency in which the financial projections are prepared.

Other elements used in the calculation, such as the market risk premium, beta coefficient and capital structure are based on market data, adequate for the industry in which the Eurocash Group operates.

The weighted average cost of capital was assumed as a discount rate - WACC 6.49%. As a result of the conducted analysis, it was confirmed that there is no need to write down an impairment loss.

In the Company's opinion, no rational change in the key assumptions adopted 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.

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Level of round-offs:	All amounts are expressed in Polish zloty (unless indicated otherwise)		

## NOTE 6. INVESTMENT PROPERTIES

### TANGIBLE FIXED ASSETS AS AT 31 DECEMBER 2018

	as at 31.12.2018	as at 31.12.2017
Opening balance	972 799	988 495
Depreciation	(15 696)	(15 696)
Closing balance	957 103	972 799

## NOTE 7. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are presented in the following table:

### INVESTMENTS IN SUBSIDIARIES IN THE PERIOD FROM 01.01 TO 31.12.2018

	as at 31.12.2018	as at 31.12.2017
Opening balance	953 265 943	825 056 471
Increase in reporting period:	360 583 606	128 209 472
acquisition of entities	349 278 606	128 209 472
Creation of new companies	5 000	-
increase of capital in subsidiaries	11 300 000	-
Decrease in reporting period:	(22 397 550)	-
sale of the PayUp Polska S.A. company	(22 397 550)	-
Closing balance	1 291 451 999	953 265 943

Increase in 2018 results from acquisition of 100% shares in Group Domelius Limited (Mila stores) by Eurocash S.A. and the decrease results from the sale of subsidiary.

## NOTE 8. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Investments in associates and joint ventures are presented below:

### INVESTMENTS IN ASSOCIATES AND JOINT VENTURES AS AT 31.12.2018

Name of entity	Registered office	Percentage in share capital (in%)	Voting rights (in%)
FRISCO S.A.	ul. Omulewska 27 04-128 Warszawa	44,03%	44,03%
Partnerski Serwis Detaliczny S.A.	ul. Grażyny 15 02-548 Warszawa	50,00%	50,00%

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Level of round-offs:	All amounts are expressed in Polish zloty (unless indicated otherwise)		

#### INVESTMENTS IN ASSOCIATES AND JOINT VENTURES AS AT 31.12.2018

	as at 31.12.2018	as at 31.12.2017
Opening balance	40 586 757	38 375 300
Increase in reporting period:	-	2 211 457
Acquisition of shares in associates	-	2 211 457
Closing balance	40 586 757	40 586 757

#### NOTE 9.

##### OTHER LONG-TERM FINANCIAL ASSETS

Other long-term financial assets are presented below:

#### OTHER LONG-TERM INVESTMENTS AS AT 31.12.2018

	as at 31.12.2018	as at 31.12.2017
Loans granted to subsidiaries	42 690 104	11 994 098
Loans granted to other entities	184 945	30 311 809
Other long-term financial assets	3 057 633	-
	45 932 683	42 293 906

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 31.12.2018

	as at 31.12.2018	as at 31.12.2017
Security deposits on rental agreements	2 248 123	2 012 691
Other long-term receivables	7 050 000	-
	9 298 123	2 012 691

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Level of round-offs:	All amounts are expressed in Polish zloty (unless indicated otherwise)		

**NOTE 11.  
OTHER LONG-TERM PREPAYMENTS**

Other long-term prepayments are presented below:

**OTHER LONG-TERM PREPAYMENTS AS AT 31.12.2018**

	as at 31.12.2018	na dzień 31.12.2017
Rentals	-	775 204
Insurance	700 000	-
Other	55 389	263 728
	<b>755 389</b>	<b>1 038 932</b>

**NOTE 12.  
INVENTORIES**

Inventories are presented below:

**INVENTORIES AS AT 31.12.2018**

	as at 31.12.2018	as at 31.12.2017
Merchandise	850 883 304	888 494 722
Materials	172 417	193 584
<b>Total inventories, including:</b>	<b>851 055 722</b>	<b>888 688 306</b>
- carrying amount of inventory deposits securing payments of liabilities	178 000 000	90 000 000

**ALLOWANCES FOR INVENTORIES IN THE PERIOD FROM 01.01 TO 31.12.2018**

	for the period from 01.01.2018 to 31.12.2018	for the period from 01.01.2017 to 31.12.2017
<b>Opening balance</b>	<b>11 188 113</b>	<b>9 270 540</b>
- increase in the allowance during the period *	-	1 917 573
- write-offs during the period *	(67 651)	-
<b>Closing balance</b>	<b>11 120 462</b>	<b>11 188 113</b>

\* net value

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Level of round-offs:	All amounts are expressed in Polish zloty (unless indicated otherwise)		

### NOTE 13. TRADE AND OTHER RECEIVABLES

Trade and other receivables are presented below:

#### TRADE RECEIVABLES AND OTHER RECEIVABLES AS AT 31.12.2018

	as at 31.12.2018	as at 31.12.2017
<b>Trade receivables</b>	<b>1 083 188 629</b>	<b>1 258 480 286</b>
Sales	656 812 940	749 513 589
Receivables from suppliers	359 705 445	438 950 543
Factoring *	23 593 244	21 852 020
Franchise fees	3 784 113	3 834 879
Other trade receivables	78 595 471	85 697 608
Allowance for trade bad debts	(39 302 584)	(41 368 352)
<b>Current tax assets</b>	<b>-</b>	<b>18 659 162</b>
<b>Other receivables</b>	<b>66 788 792</b>	<b>58 719 957</b>
VAT settlements	34 482 536	14 046 336
Receivables subject to legal proceedings	59 587 567	59 586 967
Allowance for other bad debts	(57 896 268)	(56 389 948)
Receivables from sales fixed assets	167 857	4 738 373
Receivables from employees	716 906	721 402
Receivables from insurance	342 937	982 448
Other receivables	29 387 257	35 034 379
<b>Total receivables, including:</b>	<b>1 149 977 421</b>	<b>1 335 859 405</b>
- short-term	1 149 977 421	1 335 859 405

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

### NOTE 14. OTHER SHORT-TERM FINANCIAL ASSETS

Short-term financial assets are presented below:

#### OTHER SHORT-TERM INVESTMENTS AS AT 31.12.2018

	as at 31.12.2018	as at 31.12.2017
Loans granted to a subsidiary	3 410 994	1 000 279
Shares in other entities	-	50 335 257
	<b>3 410 994</b>	<b>51 335 537</b>

Increase of the value of other short-term investments results from granting a loan to a company Mila S.A. and financial assets valued by the financial result.

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

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Level of round-offs:	All amounts are expressed in Polish zloty (unless indicated otherwise)		

#### NOTE 15. SHORT-TERM PREPAYMENTS

Short-term prepayments are presented below:

##### SHORT-TERM PREPAYMENTS AS AT 31.12.2018

	as at 31.12.2018	as at 31.12.2017
Alcohol licences	13 828 513	4 278 310
Renting the commercial properties - compensation	1 978 914	2 665 581
Insurances	2 888 875	3 049 916
Rentals	4 232 416	5 188 791
Tolls	415 821	933 968
Other prepayments	6 427 377	13 472 351
<b>Total short-term prepayments</b>	<b>29 771 917</b>	<b>29 588 917</b>

#### NOTE 16. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are presented below:

##### CASH AND CASH EQUIVALENTS AS AT 31.12.2018

	as at 31.12.2018	as at 31.12.2017
<b>Cash</b>		
cash at bank	58 229 708	4 303 974
cash on hand	1 672 740	2 445 596
cash in transit	38 053 184	51 909 991
cash on deposits	-	57 023 513
other	138 345	-
<b>Total cash</b>	<b>98 093 976</b>	<b>115 683 074</b>

#### NOTE 17. SHAREHOLDERS' EQUITY

##### Share capital

Share capital is presented below:

##### SHARE CAPITAL AS AT 31.12.2018

	as at 31.12.2018	as at 31.12.2017
Number of shares	139 163 286	139 163 286
Nominal value (PLN / share)	1	1
<b>Share capital</b>	<b>139 163 286</b>	<b>139 163 286</b>



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As at 31 December 2018, share capital consisted of 139,163,286 ordinary shares, including:

- 127,742,000 A series ordinary bearer shares with the nominal value of 1 PLN each,
- 3,035,550 B series ordinary bearer shares with the nominal value of 1 PLN each,
- 2,929,550 C series ordinary bearer shares with the nominal value of 1 PLN each,
- 830,000 D series ordinary bearer shares with the nominal value of 1 PLN each,
- 1,414,900 E series ordinary bearer shares with the nominal value of 1 PLN each,
- 537,636 F series ordinary bearer shares with the nominal value of 1 PLN each,
- 997,000 G series ordinary bearer shares with the nominal value of 1 PLN each,
- 941,000 H series ordinary bearer shares with the nominal value of 1 PLN each,
- 253,000 I series ordinary bearer shares with the nominal value of 1 PLN each,
- 482,650 M series ordinary bearer shares with the nominal value of 1 PLN each.

The structure of shareholders with more than 5% of the total number of votes at the General Meeting of Shareholders of Eurocash S.A. is presented below:

#### SHAREHOLDERS STRUCTURE

Shareholder	31.12.2018				31.12.2017			
	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 indirectly by Politra B.V.)	61 287 778	44,04%	61 287 778	44,04%	60 843 178	43,72%	60 843 178	43,72%
Management S.G.I.I.C. S.A.	13 605 690	9,78%	13 014 591	9,35%	7 498 451	5,39%	7 498 451	5,39%

The following changes occurred within the structure of share capital:

#### CHANGES IN SHARE CAPITAL IN THE PERIOD FROM 01.01 TO 31.12.2018

	for the period from 01.01.2018 to 31.12.2018	for the period from 01.01.2017 to 31.12.2017
<b>Share capital at the beginning of the period</b>	<b>139 163 286</b>	<b>139 096 361</b>
<b>Increase of share capital in the period</b>	-	<b>66 925</b>
Equity settled share-based payment transactions	-	66 925
<b>Share capital at the end of the period</b>	<b>139 163 286</b>	<b>139 163 286</b>

In 2018, no ordinary shares were issued in connection with your activities, which were granted to key employees as part of incentive programs (2017: 66,925 shares).

#### Loss on valuation of hedging transactions

Loss on valuation of hedging instruments includes the effective part of accumulated net change in fair value of hedging instruments that secure cash flows associated with hedged transactions.

#### Dividend

On 6 June 2018, in accordance with the decision of the Ordinary General Meeting of Eurocash S.A., a dividend of PLN 0.73 per share was paid out of the reserve capital. The total amount of the paid dividend was PLN 101,589,198.78

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Level of round-offs:	All amounts are expressed in Polish zloty (unless indicated otherwise)		

## NOTE 18. SHARE OPTIONS

Treasury shares options are presented below:

### OPTIONS FOR SHARES IN THE PERIOD FROM 01.01 TO 31.12.2018

	Number of options	Weighted average performance prices (PLN/share)
Existing at the beginning of the reporting period	2 906 250	32,51
Granted in the reporting period	-	-
Exercised in the reporting period	-	-
Expired in the reporting period	-	-
Existing at the end of the reporting period	2 906 250	-
including:		
Exercisable at the end of the period	2 906 250	-

On April 25, 2017 by Resolutions of the Ordinary General Meeting of Eurocash S.A. a decision was made to issue shares as part of Employee Motivation and Bonus Programs for 2017-2019 (Programs XI - XVI).

Incentive programs were introduced in connection with the intention to continue incentive programs from previous years for managers, executives and persons who are fundamental to the activities of the Company and the Eurocash Group and to create the basis for enabling outstanding employees to take up shares in the Company as part of the bonus.

Incentive programs provide for issuance of up to 4,200,000 shares (approximately 3% of the current number of shares). The period of exercise of the options (subscription rights for convertible bonds) is 3-5 years. The issue price of shares in Incentive Programs will be equal to the average price of Eurocash shares on the Warsaw Stock Exchange on the day of quotations immediately preceding the resolution of the General Meeting on the establishment of these Programs.

The programs cover a total of 6 parts of 700,000 shares:

- 700,000 ordinary shares of the "XI Program" to be implemented in the period from April 1, 2020 to April 30, 2022,
- 700,000 ordinary shares of the "XII Program" to be implemented in the period from April 1, 2020 to April 30, 2022,
- 700,000 ordinary shares of the "XIII Program" to be implemented in the period from April 1, 2021 to April 30, 2023,
- 700,000 ordinary shares of the "XVI Program" to be implemented in the period from April 1, 2021 to April 30, 2023,
- 700,000 ordinary shares of the "XV Program" to be implemented in the period from April 1, 2022 to April 30, 2024,
- 700,000 ordinary shares of the "XVI Program" to be implemented in the period from April 1, 2022 to April 30, 2024,

In the year ended on 31.12.2018, no options were exercised.

In the year ended on 31.12.2017, options were exercised for 66,925 ordinary series M shares issued as part of the Eighth Incentive and Bonus Program for Employees for 2012, 2013 and 2014, with a value of PLN 38 each, which resulted in a total cash inflow of PLN 2,543,150.

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

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**NOTE 19.  
PROVISIONS AND ACCRUALS**

Provisions and accruals are presented below:

**PROVISIONS AND ACCRUALS IN THE PERIOD FROM 01.01.2017 TO 31.12.2018**

	Provision for employee benefits	Accrual for costs of transport	Accrual for advertising costs	Accruals for costs of media	Accruals for litigations	Accrual for rental costs	Other	Total
<b>Provisions and accruals as at 01.01.2017</b>	<b>66 623 372</b>	<b>6 345 152</b>	<b>26 068 453</b>	<b>7 812 846</b>	<b>10 640 849</b>	<b>4 441 745</b>	<b>44 943 488</b>	<b>166 875 905</b>
Increases*	6 135 398	1 193 220	5 232 091	-	-	918 718	11 082 155	24 561 581
Decreases*	(1 305 417)	-	-	(955 758)	(1 163 991)	-	-	(3 425 166)
<b>Provisions and accruals as at 31.12.2017, including:</b>	<b>71 453 352</b>	<b>7 538 372</b>	<b>31 300 544</b>	<b>6 857 088</b>	<b>9 476 858</b>	<b>5 360 464</b>	<b>56 025 643</b>	<b>188 012 320</b>
- short-term	68 730 494	7 538 372	31 300 544	6 857 087	9 476 858	5 360 464	56 025 643	185 289 462
- long-term	2 722 858	-	-	-	-	-	-	2 722 858
* net value, excluding employee benefits								
<b>Provisions and accruals as at 01.01.2018</b>	<b>71 453 352</b>	<b>7 538 372</b>	<b>31 300 544</b>	<b>6 857 088</b>	<b>9 476 858</b>	<b>5 360 464</b>	<b>56 025 643</b>	<b>188 012 320</b>
Increases*	4 441 437	-	3 973 065	-	-	-	27 881 485	36 295 987
Decreases*	(3 985 501)	(605 590)	-	(593 617)	(6 163 042)	(332 495)	-	(11 680 245)
<b>Provisions and accruals as at 31.12.2018, including:</b>	<b>71 909 288</b>	<b>6 932 781</b>	<b>35 273 609</b>	<b>6 263 470</b>	<b>3 313 816</b>	<b>5 027 969</b>	<b>83 907 128</b>	<b>212 628 062</b>
- short-term	68 627 054	6 932 781	35 273 609	6 263 470	3 313 816	5 027 969	83 907 128	209 345 828
- long-term	3 282 234	-	-	-	-	-	-	3 282 234
* net value, excluding employee benefits								

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Level of round-offs:	All amounts are expressed in Polish zloty (unless indicated otherwise)		

## PROVISIONS AS AT 31.12.2018

	as at 31.12.2018	as at 31.12.2017
Provision for employee benefits	71 909 288	71 453 352
Accrual for advertising costs	35 273 609	31 300 544
Accruals for intrests	4 006 706	3 014 775
Accrual for costs of media	6 263 470	6 857 087
Accruals for litigations	3 313 816	9 476 858
Accrual for advisory and audit	12 782 297	3 868 890
Accrual for costs of transport	6 932 781	7 538 372
Accrual for rental costs	5 027 969	5 360 464
Alcohol licensing	1 306 980	948 798
Accrual for IT modernization	876 996	460 916
Accrual for bonus	8 620 321	10 039 045
Other provisions and accruals	56 313 828	37 693 220
	<b>212 628 061</b>	<b>188 012 320</b>
- long-term	3 282 234	2 722 858
- short-term	209 345 827	185 289 462

### Provisions and liabilities for employee benefits

Provisions and liabilities for employee benefits include provision for retirement, disability and post-mortem benefits in amount of PLN 3.596.205 (the remaining part mainly consists of salaries payable and provisions for holidays and provision for bonuses).

Provision for retirement benefits was calculated by an actuary. Actuarial valuation accounted for such items as: discount rate of 2.8%, 2,5% wage increase. The amount of 3.282.234 PLN was presented as long-term portion of provision.

### Provision for costs of advertising and marketing

Provision for advertising and marketing costs includes mainly provisions related to payments for marketing services provided by clients.

It is expected that these provisions will be realized within 12 months after 31 December 2018.

### Provision for interest

The provision applies to estimated costs associated with outstanding liabilities past due as at 31 December 2018.

The provision is expected to be realized within 12 months after 31 December 2018.

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## NOTE 20. TRADE AND OTHER PAYABLES

Trade and other payables are presented below:

### TRADE AND OTHER PAYABLES AS AT 31.12.2018

	as at 31.12.2018	as at 31.12.2017
<b>Trade liabilities</b>	<b>2 887 356 977</b>	<b>3 061 015 686</b>
Payables due to purchase of goods	2 773 553 334	2 956 173 482
Payables due to services received	97 407 486	87 293 421
Payables due to reversal of remuneration	16 396 156	17 548 783
<b>Current tax liabilities</b>	<b>40 241 661</b>	-
<b>Other payables</b>	<b>50 481 192</b>	<b>54 686 191</b>
Liabilities due to purchased trade marks	-	4 292 712
Liabilities due to purchases of assets	18 000 171	10 107 982
Liabilities due to social securities	24 095 448	23 333 043
Liabilities due to taxes and insurances	6 203 544	10 288 029
Liabilities due to deposits	1 061 800	903 500
Other payables	1 120 229	5 760 924
<b>Total liabilities, including:</b>	<b>2 978 079 830</b>	<b>3 115 701 876</b>
- long-term	1 061 800	903 500
- short-term	2 976 776 151	3 114 798 376

Eurocash made the assessment of the liabilities covered by reverse factoring and based on this judgment classified the liabilities due to the so-called reverse factoring. reverse factoring as a liability for deliveries and services, because in connection with the handing over of the factoring commitments, there were no significant changes in the nature of these liabilities, in particular significant changes to the terms of payment. As part of the balance of trade liabilities as at December 31, 2018, the value of balances covered by the vendor financing program in the amount of PLN 1,190,147,484 was included, while as at December 31, 2017, the respective balance amounted to PLN 1,213,079,355.

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## NOTE 21.

### LOANS AND BORROWINGS

Loans and borrowings are presented below:

#### LOANS AND BORROWINGS AS AT 31.12.2018

Credit destination		Liability amount	Interest rate	Costs for the period from 01.01.2018 to 31.12.2018
Bank 1	Loans as part of the Group under a cash pooling agreement	567 093 554	WIBOR + bank's margin	9 834 607
Bank 2	Loan for financing current activity	400 000 000	WIBOR + bank's margin	13 994 247
Bank 3	Loan for financing current activity	34 599 132	WIBOR + bank's margin	1 305 722
Bank 4	Loan for financing current activity	6 358 445	WIBOR + bank's margin	101 512
Bank 5	Loan for financing current activity	4 395 937	WIBOR + bank's margin	80 320
Bank 6	Loan for financing current activity	1 986 787	WIBOR + bank's margin	81 588
Total loans and credits		<b>1 014 433 854</b>		<b>25 397 995</b>
- short-term		1 014 433 854		

On February 2, 2009, the entities from Eurocash Group signed a liquidity management agreement in the form of daily loans from Bank ("Cash Pool"). The aim is effectively managing the common financial liquidity within the accounts group.

Each of the Group companies has a separate current account. Eurocash S.A. acts as the management structure - operates two accounts:

- the main account - within the accounts group;
- the main liquidity account - outside the accounts group, which reflects the consolidated balance of all accounts.

The DOLMA System is based on the mechanism of zero balances. This operation is the last working day operation and involves a transfer of positive and negative balances of individual current accounts to the main account of liquidity on balance. At the beginning of each working day, this operation is reversed.

Interest on the balance on the main account of liquidity is calculated on the last day of each calendar month.

On 14 October 14, 2016, Eurocash Group companies signed a contract for the management of cash management system for the group of accounts with Bank ("Cash pool").

The goal is to increase the efficiency of short-term cash management and available loans.

Each of the Group's companies has a separate current account. Eurocash S.A. performs a management role in the structure, i.e. runs three accounts: an account for ongoing settlements, an auxiliary account and a pool leader account for purposes related to the functioning of the system.

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The system is based on a zero balance mechanism. This is the last operation of the business day and consists in transferring positive and negative balances from individual current accounts to the pool leader account per balance. At the beginning of each subsequent business day, this operation is reversed

In addition, the Company has a line of credit to the amount of PLN 700 m in Bank syndicate. As at 31.12.2018, the limit was reached to the level PLN 400 m.

In accordance to the credit agreements, the Company is obliged to maintain certain financial ratios at a defined level and to engage in business activities within the framework prescribed in the agreements. What is more, according to the credit agreements, the Company issued certain collaterals, details of which are presented in Note 33.

## NOTE 22.

### OTHER FINANCIAL LIABILITIES

Other financial liabilities are presented below:

#### **FINANCIAL LIABILITIES AS AT 31.12.2018**

	as at 31.12.2018	as at 31.12.2017
Liabilities arising from the issue of bonds	-	219 533 443
Finance lease liabilities	1 874 590	2 993 775
Liabilities related to financing of franchisees*	23 593 244	21 852 020
Liabilities due to security instruments	3 695 592	2 270 095
	<b>29 163 426</b>	<b>246 649 332</b>
- long-term	281 330	693 162
- short-term	28 882 096	245 956 170

\* liabilities 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.

According to the assumptions, on June 20, 2018, all bonds issued in this program were bought back. On the same day, the bondholders also received interest payments for the last interest period of the program.

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## FINANCE LEASES

### FINANCE LEASE AS AT 31.12.2018

	as at 31.12.2018	as at 31.12.2018	as at 31.12.2017	as at 31.12.2017
	minimum lease payments	present value of minimum lease payments	minimum lease payments	present value of minimum lease payments
<i>Future minimum lease payments due to operating lease agreements</i>				
Less than one year	1 404 166	1 343 024	2 434 381	2 368 542
Between one and five years	576 933	531 566	659 551	625 233
More than five years	-	-	-	-
<b>Total future minimum lease payments due to finance lease agreements</b>	<b>1 981 099</b>	<b>1 874 590</b>	<b>3 093 932</b>	<b>2 993 775</b>
Finance costs	106 509	X	100 157	X
<b>Present value of minimum lease payments due to finance lease agreements</b>	<b>1 874 590</b>	<b>1 874 590</b>	<b>2 993 775</b>	<b>2 993 775</b>



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## OPERATING LEASES

The Company recognized operating lease contracts concerning lease or rental of premises, vehicles and other under which 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 ownership of the asset is made.

The contracts relate to lease and rental of space for the purpose of commercial activities such as sales of groceries, cigarettes, alcohol, household chemicals and non-food merchandise. The company signed the contracts relating to the use of storage space for logistics and transportation purposes, as well as office space for administrative activities of headquarters' employees. Moreover, the Company recognized an operating lease contract related to the lease of vehicles used by the lessee in its current operations.

For contracts relating to trading space, the price is defined per 1 square meter. Prices are adjusted on the basis of the annual rate of inflation published by the Central Statistical Office, fluctuations in 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.

The term and termination conditions stated in certain contracts read 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 the date of the contract termination, the contract will be automatically extended for the following period (same as in the original contract).

A specification of minimum operating lease charges is presented below:

### **LIABILITIES UNDER OPERATING LEASE AGREEMENTS AS AT 31.12.2018**

	as at 31.12.2018	as at 31.12.2017
<i>Future minimum fees due to operating lease agreements paid in the period:</i>		
Less than one year	152 526 142	128 550 028
Between one and five years	454 829 133	420 117 528
More than five years	423 665 466	431 687 625
<b>Total future minimum fees due to operating lease agreements</b>	<b>1 031 020 741</b>	<b>980 355 182</b>

Operating lease payments for 2018 amounted to PLN 179.072.633 (2017: PLN 168.840.720).

The value of minimum fees for contracts concluded for an indefinite period was estimated based on the 3-month duration of these contracts.

Changes in the operational leasing resulting from the implementation of IFRS 16 "Leases" are included in Pt 1.3 of the Additional Information to the separate financial statements for the period from 01.01. until 31.12.2018.

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## NOTE 23. INCOME TAX

Income tax for the reporting period is presented below:

### INCOME TAX FOR THE PERIOD FROM 01.01 TO 31.12.2018 (main components)

	for the period from 01.01.2018 to 31.12.2018	for the period from 01.01.2017 to 31.12.2017
<i>Profit and loss account</i>		
Current income tax	(58 047 213)	-
Deferred income tax	13 661 685	(41 967 643)
<b>Total income tax</b>	<b>(44 385 528)</b>	<b>(41 967 643)</b>

### TAX RECONCILIATION FOR THE PERIOD FROM 01.01 TO 31.12.2018 (main components)

	for the period from 01.01.2018 to 31.12.2018	for the period from 01.01.2017 to 31.12.2017
<b>Profit before tax</b>	<b>194 006 583</b>	<b>(29 745 445)</b>
Income tax calculated base on 19% income tax rate	(36 861 251)	5 651 635
Other permanent tax differences	(7 579 503)	(6 263 488)
Influence of VAT paid for securing tax liabilities - permanent difference	-	(20 680 363)
Write-down of deferred tax assets	(127 779)	(23 292 531)
The tax impact of dividends received from Group companies	1 111 850	4 994 661
Costs of overdue liabilities	232 360	-
Tax income not being the balance income	(920 927)	-
Other differences	(240 278)	(2 377 557)
<b>Income tax in the profit and loss account</b>	<b>(44 385 528)</b>	<b>(41 967 643)</b>
<b>Effective tax rate</b>	<b>22,88%</b>	<b>141,09%</b>

## UNCERTAINTY CONNECTED WITH TAX SETTLEMENTS

Regulations regarding VAT, corporate profits tax and social security contributions are subject to frequent changes. These changes result in there being little point of reference and few established precedents that may be followed. The binding regulations also contain uncertainties, resulting in differences in opinion regarding the legal interpretation of tax regulations both between government bodies, and between government bodies and companies.

Tax and other settlements (e.g. customs or foreign currency settlements) may be subject to inspection by administrative bodies authorised to impose high penalties and fines, and any additional taxation liabilities calculated as a result must be paid together with high interest. The above circumstances mean that tax exposure is greater in Poland than in countries that have a more established taxation system.

Accordingly, the amounts shown in the financial statements may change at a later date as a result of the final decision of the tax authorities.

In the previous reporting periods, companies within the Group carried out transactions and participated in restructuring processes, which may be the subject of analysis and control of tax authorities.

On 15 July 2016, amendments were made to the Tax Ordinance to introduce the provisions of General 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

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with GAAR, an activity does not bring about tax gains, if its *modus operandi* was false. Any instances of (i) unreasonable division of an operation (ii) involvement of agents despite lack of economic rationale for such involvement, (iii) mutually exclusive or mutually compensating elements, as well as (iv) other activities similar to those referred to earlier may be treated as a hint of artificial activities subject to GAAR. New regulations will require considerably greater judgment in assessing tax effects of individual transactions.

The GAAR clause should be applied to the transactions performed after clause effective date and to the transactions which were performed prior to GAAR clause effective date, but for which after the clause effective date tax gains were realised or continue to be realised. The implementation of the above provisions will enable Polish tax authority challenge such arrangements realised by tax remitters as restructuring or reorganization.

The Group accounts for current and deferred tax assets and liabilities based on the requirements of IAS 12 Income taxes, based on taxable profit (tax loss), taxable base, carry-forward of unused tax losses and carry-forward of unused tax credits, and tax rates, while considering the assessment of uncertainty related to tax settlements. If uncertainty exists as to whether and to what extent tax authority will accept individual tax treatments of made transactions, the Group discloses these settlements while accounting for uncertainty assessment.

On 19 June 2017 a report from the tax control was delivered to Eurocash S.A. in which the tax authorities questioned the possibility of making depreciation write-offs concerning the values of certain trademarks. The tax depreciation costs amounted in the year 2011 to PLN 41 million.

Based on the external experts' tax analysis on 5 July 2017 the Company subjected its response to the tax report.

On 28 September 2017, the Head of the Customs and Revenue Office for Wielkopolska Region in Poznań issued a decision to Eurocash S.A., in which he stated in the case above that the Company had an understatement of tax liability for 2011 of PLN 8 million. On the basis of an external legal expert analysis, on 17 October 2017, the Company appealed against this decision. It mentions a number of arguments for the correctness of the tax settlements made by the Company, including confirmation of the correctness of the settlements through the positive interpretations of tax law. As a result, as at 31 December 2018, the Management Board of the Company has no confirmation for creating of any provisions due to these interpretations.

On 28 February 2018, the Head of the Customs and Revenue Office for Wielkopolska Region in Poznań initiated an audit of corporate income tax for 2016. As at 31 December 2018, the audit was not completed.

## **THE DAMAGE SUFFERED BY THE COMPANY IN THE PREVIOUS YEAR AS A RESULT OF THE ACTIVITIES OF EXTERNAL ENTITIES PARTICIPATING IN THE VAT FRAUD MECHANISM**

The audit of VAT settlements by the Eurocash Group companies did not reveal any irregularities of a nature identical to the irregularities disclosed in 2017. Despite the above, taking into account the turnover of the remaining companies of the Group, gained on transactions concerning intra-Community delivery of goods, the risks associated with such potential irregularities are not material.

Eurocash S.A. stopped execution of such transactions concerning intra-Community delivery of goods.

On 30 January 2018, the Prosecutor of the Regional Prosecutor's Office in Poznań commenced the investigation of the notification of 24 August 2017.

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**NOTE 24.**  
**DEFERRED TAX**

Deferred tax is presented below:

**DEFERRED TAX IN THE PERIOD FROM 01.01 TO 31.12.2018**

	Statement of financial position		Income statement		Statement of comprehensive income	
	as at 31.12.2018	as at 31.12.2017	for the period from 01.01.2018 to 31.12.2018	for the period from 01.01.2017 to 31.12.2017	for the period from 01.01.2018 to 31.12.2018	for the period from 01.01.2017 to 31.12.2017
<i>Deferred tax liabilities</i>						
- difference between tax and carrying amount of fixed assets	108 980 559	103 097 901	5 882 658	14 831 110	-	-
- future revenues	37 324 062	57 393 178	(20 069 117)	16 980 810	-	-
- revenues from accrued interests	1 339 972	1 041 399	298 573	156 418	-	-
- other	418 531	506 460	(87 929)	212 804	-	-
<b>Gross deferred tax liability</b>	<b>148 063 124</b>	<b>162 038 939</b>	<b>(13 975 815)</b>	<b>32 181 141</b>	<b>-</b>	<b>-</b>

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Level of round-offs:	All amounts are expressed in Polish zloty (unless indicated otherwise)		

#### DEFERRED TAX IN THE PERIOD FROM 01.01 TO 31.12.2018 (continued)

	Statement of financial position		Income statement		Statement of comprehensive income	
	as at 31.12.2018	as at 31.12.2017	for the period from 01.01.2018 to 31.12.2018	for the period from 01.01.2017 to 31.12.2017	for the period from 01.01.2018 to 31.12.2018	for the period from 01.01.2017 to 31.12.2017
<i>Deferred tax liabilities</i>						
- bonuses	3 621 820	9 049 284	5 427 463	5 139 900	-	-
- allowance of inventories	2 112 888	2 125 741	12 854	(364 339)	-	-
- allowance for bad debts	15 054 354	15 092 661	38 308	(283 080)	-	-
- allowance for loss on investments	-	-	-	22 345 156	-	-
- current tax loss and loss from previous years	6 745 916	15 396 093	8 650 177	(13 579 550)	-	-
- accruals	6 881 043	8 536 184	1 655 141	616 611	-	-
- unpaid payroll and social securities	2 146 284	2 096 186	(50 098)	43 832	-	-
- accruals	11 405 738	9 218 408	(2 187 331)	(1 712 374)	-	-
- hedging instruments	702 163	431 318	-	-	(270 844)	(40 597)
- other differences	29 625 674	17 095 452	(12 530 222)	(2 419 652)	-	-
<b>- deferred tax assets</b>	<b>78 295 879</b>	<b>79 041 327</b>	<b>1 016 292</b>	<b>9 786 502</b>	<b>(270 844)</b>	<b>(40 597)</b>
Allowance of deferred tax assets	-	-	-	-	-	-
<b>- deferred tax assets</b>	<b>78 295 879</b>	<b>79 041 327</b>	<b>1 016 292</b>	<b>9 786 502</b>	<b>(270 844)</b>	<b>(40 597)</b>
Deferred income tax effect			(12 959 523)	41 967 643	(270 844)	(40 597)
<b>Net deferred tax liability</b>	<b>69 767 245</b>	<b>82 997 612</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Net deferred tax asset</b>	<b>-</b>	<b>-</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>

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Level of round-offs:	All amounts are expressed in Polish zloty (unless indicated otherwise)		

**NOTE 25.  
SALES IN THE REPORTING PERIOD**

Sales revenues are presented below:

**SALE IN THE PERIOD FROM 01.01 TO 31.12.2018**

	for the period from 01.01.2018 to 31.12.2018	for the period from 01.01.2017 to 31.12.2017 restated *
Sale of goods	14 697 738 394	13 580 367 154
Sale of services	78 202 504	77 675 075
<b>Total sale</b>	<b>14 775 940 898</b>	<b>13 658 042 229</b>
* note 2		

**NOTE 26.  
COSTS BY TYPE**

Costs by type are presented below:

**COSTS BY TYPE IN THE PERIOD FROM 01.01 TO 31.12.2018**

	for the period from 01.01.2018 to 31.12.2018	for the period from 01.01.2017 to 31.12.2017
Depretiation	115 740 618	114 132 123
Materials and energy	92 854 137	98 339 244
External services	601 328 465	534 858 088
Taxes and charges	29 428 815	29 335 389
Payroll	603 941 640	550 975 611
Social security and other benefits	110 185 784	106 075 345
Other costs by type	27 689 443	25 914 485
<b>Costs by type</b>	<b>1 581 168 902</b>	<b>1 459 630 285</b>
including:		
Selling expenses	1 317 493 794	1 201 890 746
General and administrative expenses	263 675 008	257 739 539

Separate financial statements of EUROCASH S.A.			
Financial statements period:	1 January -31 December 2018	Presentation currency:	Polish zloty (PLN)
Level of round-offs:	All amounts are expressed in Polish zloty (unless indicated otherwise)		

**NOTE 27.**  
**OTHER OPERATING INCOMES AND EXPENSES**

Other operating incomes and expenses are presented below:

**OTHER OPERATING INCOME AND EXPENSES THE PERIOD FROM 01.01 TO 31.12.2018**

	for the period from 01.01.2018 to 31.12.2018	for the period from 01.01.2017 to 31.12.2017
<b>Other operating income</b>	<b>41 874 022</b>	<b>42 278 532</b>
Penalties for suppliers	13 356 830	13 577 254
Other sales	8 092 440	5 780 854
Sub-lease of premises	3 331 960	5 562 839
Revenus from transport services	259 475	87 976
Compensation received	1 064 032	711 200
Penalties received	-	3 000 000
Cases in court	-	1 451 649
Other (irrelevant individually)	15 769 285	12 106 761
<b>Other operating costs</b>	<b>(31 618 624)</b>	<b>(149 021 257)</b>
Allowance for bad debts	(535 561)	(3 428 117)
Losses from disposals of property, plant and equipment	(7 267 163)	(613 750)
Commission from payment cards	-	(2 068 797)
Ligitations	(5 663 784)	-
Paid penalties	(1 959 967)	(1 106 879)
Redemption of the loan	-	(11 099 573)
Security for VAT liabilities	-	(114 400 861)
Other (irrelevant individually)	(16 192 149)	(16 303 281)
<b>Other net operating income / expenses</b>	<b>10 255 398</b>	<b>(106 742 725)</b>

**NOTE 28.**  
**FINANCE INCOMES AND COSTS**

Finance incomes and costs are presented below:

**FINANCIAL REVENUES AND COSTS IN THE PERIOD FROM 01.01 TO 31.12.2018**

	for the period from 01.01.2018 to 31.12.2018	for the period from 01.01.2017 to 31.12.2017
<b>Financial income</b>	<b>95 862 636</b>	<b>53 756 600</b>
Profit from the sale of funds in subsidiaries *	63 207 450	-
Dividends	5 851 841	26 287 691
Revenues from the sale of short-term investments	-	5 248 005
Revenues from discounts	8 844 997	7 752 148
Interest	6 595 217	3 674 666
Foreing exchange gains	-	509 939
Other financial income (irrelevant individually)	11 363 131	10 284 150
<b>Financial expenses</b>	<b>(80 517 868)</b>	<b>(61 492 391)</b>
Interest	(73 550 140)	(47 713 008)
Commissions and bank charges	(3 063 008)	(3 909 025)
Foreing exchange losses	(509 338)	-
Other financial expenses (irrelevant individually)	(3 395 382)	(9 870 358)
<b>Net financial income / costs</b>	<b>15 344 768</b>	<b>(7 735 791)</b>

\* note 1

Separate financial statements of EUROCASH S.A.			
Financial statements period:	1 January -31 December 2018	Presentation currency:	Polish zloty (PLN)
Level of round-offs:	All amounts are expressed in Polish zloty (unless indicated otherwise)		

## NOTE 29. EARNINGS (LOSS) PER SHARE

Earnings (LOSS) per share are presented below:

### EARNINGS/ (LOSS) PER SHARE FOR THE PERIOD FROM 01.01 TO 31.12.2018

	for the period from 01.01.2018 to 31.12.2018	for the period from 01.01.2017 to 31.12.2017
<i>Earnings</i>		
Profit/ (loss) for the period attributable to the Parent's shareholders	149 621 055	(71 713 088)
<i>Number of issued shares</i>		
Weighted average number of shares	139 163 286	139 158 564
<b>Dilution effect of potential number of shares:</b>		
Convertible bonds	-	-
Weighted average number of shares (to calculate diluted earnings per share)	139 163 286	139 158 564
<b>Earnings (loss) per share</b>		
- basic	1,08	(0,52)
- diluted	1,08	(0,52)

### 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

The weighted average number of shares determined to calculate the value of diluted earnings per share includes issued bonds convertible to shares and is calculated as the total of the weighted average number of ordinary shares plus a potential free of charge issue of ordinary shares.

The 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 average market value of ordinary shares during the period.

For the purpose of calculating diluted earnings per share, the weighted average number of shares was not adjusted for conversion of convertible bonds conducted during the periods following the end date of the reporting period on a non-arm's length basis.

### Description of factors which dilute the number of shares

Earnings per share are diluted as a consequence of implementation of share option schemes discussed in Note 18.



<i>Separate financial statements of EUROCASH S.A.</i>			
Financial statements period:	1 January -31 December 2018	Presentation currency:	Polish zloty (PLN)
Level of round-offs:	All amounts are expressed in Polish zloty (unless indicated otherwise)		

### NOTE 30. TRANSACTIONS WITH SUBSIDIARIES

No significant non-arm's length transactions with subsidiaries were closed in 2018.

No allowances for receivables from related parties were recognized in 2018 by the Company.

Trade receivables	31.12.2018	31.12.2017
Ledi Sp. z o.o.	119 355 556	38 674 035
Firma Rogala Sp. z o.o.	26 739 547	16 055 703
Eurocash Serwis Sp. z o.o.	14 712 631	32 772 139
Eurocash Detal Sp. z o.o.	10 987 272	10 371 890
FHC-2 Sp. z o.o.	10 941 408	9 640 469
Eurocash Franczyza Sp. z o.o.	6 037 774	9 234 083
Duży Ben Sp. z o.o.	5 538 190	2 282 113
Eurocash Trade 1 Sp. z o.o.	5 367 653	5 089 709
MILA S.A.	4 258 840	-
Cerville Investments Sp. z o.o.	2 031 513	973 505
Lewiatan Holding S.A.	1 475 940	571 099
Euro Sklep S.A.	1 279 415	1 315 844
Madas Sp. z o.o.	1 176 415	1 414 967
ABC na kołach Sp. z o.o.	1 014 913	588 453
Przedsiębiorstwo Handlu Spożywczego Sp. z o.o.	969 735	234 995
JIM Sp. z o.o.	740 623	377 128
Eurocash Convenience Sp. z o.o.	487 057	977 188
EKO Holding S.A.	447 569	641 150
Kontigo Sp. z o.o.	294 557	236 186
Inmedio Sp. z o.o.	202 184	166 044
Lewiatan Wielkopolska Sp. z o.o.	187 764	139 965
DEF Sp. z o.o.	184 385	283 256
Lewiatan Śląsk Sp. z o.o.	181 040	806 244
Ambra Sp. z o.o.	154 402	137 998
Lewiatan Podkarpacie Sp. z o.o.	147 798	12 041
Lewiatan Podlasie Sp. z o.o.	133 952	84 754
Polska Dystrybucja Alkoholi Sp. z o.o.	124 904	8 444 174
Lewiatan Północ Sp. z o.o.	117 606	106 329
Lewiatan Kujawy Sp. z o.o.	116 865	213 250
Akademia Umiejętności Eurocash Sp. z o.o.	99 325	-
Detal Podlasie Sp. z o.o.	94 649	245 303
Detal Finanse Sp. z o.o.	81 944	114 943
Lewiatan Orbita Sp. z o.o.	60 842	35 234
Sushi 2 Go Sp. z o.o. (previously Sushi To Go Sp. z o.o. Sp. k	58 757	169 382
Lewiatan Zachód Sp. z o.o.	57 245	59 076
Lewiatan Opole Sp. z o.o.	56 752	53 755
EC VC7 Sp. z o.o.	13 278	40 274
4vapers Sp. z o.o.	12 997	44 204
Premium Distributors Sp. z o.o.	6 593	6 065
Eurocash VC3 Sp. z o.o.	1 968	2 952
Eurocash Trade 2 Sp. z o.o.	178	535
PayUp Polska S.A.	-	222 639
Eurocash VC2 Sp. z o.o. w likwidacji	-	3 919
<b>Total</b>	<b>215 952 036</b>	<b>142 842 993</b>

Separate financial statements of EUROCASH S.A.			
Financial statements period:	1 January -31 December 2018	Presentation currency:	Polish zloty (PLN)
Level of round-offs:	All amounts are expressed in Polish zloty (unless indicated otherwise)		

Other receivables	31.12.2018	31.12.2017
Euro Sklep S.A.	1 302 800	945 028
Eurocash Serwis Sp. z o.o.	762 316	570 654
Duży Ben Sp. z o.o.	377 768	239 348
Lewiatan Holding S.A.	198 719	725 142
Lewiatan Śląsk Sp. z o.o.	29 781	1 062
Ledi Sp. z o.o.	16 015	-
Kontigo Sp. z o.o.	14 553	62 061
Lewiatan Zachód Sp. z o.o.	13 305	-
Lewiatan Północ Sp. z o.o.	11 066	2 909
Lewiatan Kujawy Sp. z o.o.	8 912	3 785
Lewiatan Opole Sp. z o.o.	8 245	3 754
Przedsiębiorstwo Handlu Spożywczego Sp. z o.o.	7 654	7 654
Eurocash Franczyza Sp. z o.o.	7 577	995 952
Lewiatan Podlasie Sp. z o.o.	5 125	35 973
Lewiatan Wielkopolska Sp. z o.o.	4 538	4 376
EKO Holding S.A.	3 462	544
DEF Sp. z o.o.	2 952	72 511
Eurocash Trade 1 Sp. z o.o.	2 583	2 583
Lewiatan Orbita Sp. z o.o.	1 835	1 510
Cerville Investments Sp. z o.o.	1 789	-
Premium Distributors Sp. z o.o.	1 434	1 885
Ambra Sp. z o.o.	1 071	7 238
Lewiatan Podkarpacie Sp. z o.o.	544	-
ABC na kołach Sp. z o.o.	369	-
Detal Podlasie Sp. z o.o.	361	-
PayUp Polska S.A.	-	25 704
4vapers Sp. z o.o.	-	2 461
Eurocash Detal Sp. z o.o.	-	2 396
<b>Total</b>	<b>2 784 774</b>	<b>3 714 530</b>

Separate financial statements of EUROCASH S.A.			
Financial statements period:	1 January -31 December 2018	Presentation currency:	Polish zloty (PLN)
Level of round-offs:	All amounts are expressed in Polish zloty (unless indicated otherwise)		

Trade payables	31.12.2018	31.12.2017
Lewiatan Holding S.A.	25 567 771	25 496 969
Eurocash Serwis Sp. z o.o.	7 585 018	9 519 562
Eurocash Franczyza Sp. z o.o.	7 482 755	8 686 680
Euro Sklep S.A.	1 742 911	1 338 102
Cerville Investments Sp. z o.o.	1 137 807	-
Lewiatan Kujawy Sp. z o.o.	1 008 974	904 402
Lewiatan Śląsk Sp. z o.o.	1 007 942	1 821 271
EC VC7 Sp. z o.o.	922 500	-
Ledi Sp. z o.o.	775 707	-
Polska Dystrybucja Alkoholi Sp. z o.o.	750 115	1 052 462
Lewiatan Podlasie Sp. z o.o.	660 931	631 145
EKO Holding S.A.	615 002	1 196 385
Lewiatan Północ Sp. z o.o.	608 431	468 686
Lewiatan Wielkopolska Sp. z o.o.	602 151	599 979
Lewiatan Opole Sp. z o.o.	527 686	470 080
Lewiatan Zachód Sp. z o.o.	408 052	772 010
Firma Rogala Sp. z o.o.	364 621	37 174
Lewiatan Orbita Sp. z o.o.	355 554	301 686
Lewiatan Podkarpacie Sp. z o.o.	190 914	162 983
Eurocash Detal Sp. z o.o.	141 878	56 132
Sushi 2 Go Sp. z o.o.	45 804	-
Eurocash Convenience Sp. z o.o.	32 927	33 223
Premium Distributors Sp. z o.o.	32 698	69 785
FHC-2 Sp. z o.o.	28 550	26 505
Kontigo Sp. z o.o.	19 907	547
DEF Sp. z o.o.	7 350	7 482
MILA S.A.	1 105	-
Eurocash Trade 1 Sp. z o.o.	-	1 555 779
PayUp Polska S.A.	-	30 126
Duży Ben Sp. z o.o.	-	2 482
Inmedio Sp. z o.o.	-	380
ABC na kołach Sp. z o.o.	-	279
<b>Total</b>	<b>52 625 060</b>	<b>55 242 295</b>

Receivables from loans granted	31.12.2018	31.12.2017
MILA S.A.	34 200 706	-
Przedsiębiorstwo Handlu Spożywczego Sp. z o.o.	11 892 298	11 982 098
Cerville Investments Sp. z o.o.	-	1 000 279
<b>Total</b>	<b>46 093 003</b>	<b>12 982 377</b>

Separate financial statements of EUROCASH S.A.			
Financial statements period:	1 January -31 December 2018	Presentation currency:	Polish zloty (PLN)
Level of round-offs:	All amounts are expressed in Polish zloty (unless indicated otherwise)		

Other payables	31.12.2018	31.12.2017
Eurocash Trade 1 Sp. z o.o.	1 558 725	2 946
Ledi Sp. z o.o.	1 442 264	5 673 887
Firma Rogala Sp. z o.o.	1 284 309	1 153 983
Eurocash Franczyza Sp. z o.o.	685 128	699 089
FHC-2 Sp. z o.o.	416 424	415 266
Eurocash Serwis Sp. z o.o.	410 523	411 540
Ambra Sp. z o.o.	276 068	22 684
EKO Holding S.A.	221 521	-
DEF Sp. z o.o.	206 872	42 227
Przedsiębiorstwo Handlu Spożywczego Sp. z o.o.	198 214	165 929
Lewiatan Podlasie Sp. z o.o.	185 287	128 751
Eurocash Detal Sp. z o.o.	126 838	97 409
Lewiatan Kujawy Sp. z o.o.	70 706	76 849
Premium Distributors Sp. z o.o.	68 411	163 788
Madas Sp. z o.o.	33 333	22 437
Lewiatan Wielkopolska Sp. z o.o.	23 741	22 763
Lewiatan Opole Sp. z o.o.	23 258	10 577
Lewiatan Północ Sp. z o.o.	14 550	23 192
Lewiatan Podkarpacie Sp. z o.o.	12 555	4 914
JIM Sp. z o.o.	12 386	98 577
Lewiatan Śląsk Sp. z o.o.	9 905	8 528
Lewiatan Zachód Sp. z o.o.	6 880	13 849
Lewiatan Orbita Sp. z o.o.	4 741	4 033
Kontigo Sp. z o.o.	41	-
Eurocash VC2 Sp. z o.o. w likwidacji	-	4 315 396
Polska Dystrybucja Alkoholi Sp. z o.o.	-	26 951
Euro Sklep S.A.	-	8 736
<b>Total</b>	<b>7 292 680</b>	<b>13 614 301</b>

Separate financial statements of EUROCASH S.A.			
Financial statements period:	1 January -31 December 2018	Presentation currency:	Polish zloty (PLN)
Level of round-offs:	All amounts are expressed in Polish zloty (unless indicated otherwise)		

Sales of goods	01.01-31.12.2018	01.01-31.12.2017
Ledi Sp. z o.o.	584 089 248	176 555 146
Eurocash Serwis Sp. z o.o.	318 058 318	340 359 004
Firma Rogala Sp. z o.o.	255 291 780	239 120 890
FHC-2 Sp. z o.o.	142 115 271	139 089 210
Madas Sp. z o.o.	18 736 059	20 535 654
Eurocash Detal Sp. z o.o.	12 137 651	14 266 503
Duży Ben Sp. z o.o.	11 488 478	6 157 964
JIM Sp. z o.o.	10 172 731	2 625 366
ABC na kołach Sp. z o.o.	4 808 874	1 927 590
MILA S.A.	3 911 650	-
Detal Podlasie Sp. z o.o.	3 650 213	3 993 869
DEF Sp. z o.o.	675 144	615 752
Inmedio Sp. z o.o.	578 596	373 540
Polska Dystrybucja Alkoholi Sp. z o.o.	504 554	8 246 186
Eurocash Franczyza Sp. z o.o.	470 189	717 018
Eurocash Convenience Sp. z o.o.	468 967	4 468 228
EKO Holding S.A.	448 675	5 286 076
Cerville Investments Sp. z o.o.	400 427	-
Ambra Sp. z o.o.	138 426	135 335
Kontigo Sp. z o.o.	52 809	36 596
Lewiatan Opole Sp. z o.o.	19 360	27 365
Lewiatan Śląsk Sp. z o.o.	13 457	15 471
Lewiatan Orbita Sp. z o.o.	11 815	10 921
Lewiatan Wielkopolska Sp. z o.o.	11 220	10 167
Lewiatan Podlasie Sp. z o.o.	10 821	22 914
Lewiatan Północ Sp. z o.o.	8 108	9 317
Lewiatan Zachód Sp. z o.o.	6 499	2 527
PayUp Polska S.A.	5 434	-
Lewiatan Kujawy Sp. z o.o.	4 044	5 649
Lewiatan Podkarpacie Sp. z o.o.	2 338	-
Euro Sklep S.A.	-	750
<b>Total</b>	<b>1 368 291 156</b>	<b>964 615 007</b>

Separate financial statements of EUROCASH S.A.			
Financial statements period:	1 January -31 December 2018	Presentation currency:	Polish zloty (PLN)
Level of round-offs:	All amounts are expressed in Polish zloty (unless indicated otherwise)		

Sales of services	01.01-31.12.2018	01.01-31.12.2017
Eurocash Franczyza Sp. z o.o.	34 011 144	30 069 245
Eurocash Serwis Sp. z o.o.	11 614 220	9 933 526
Lewiatan Holding S.A.	9 245 980	6 578 610
Euro Sklep S.A.	5 189 126	5 596 310
EKO Holding S.A.	884 182	174 307
Lewiatan Kujawy Sp. z o.o.	611 157	894 678
Kontigo Sp. z o.o.	602 040	419 775
Lewiatan Śląsk Sp. z o.o.	597 033	942 692
Lewiatan Podlasie Sp. z o.o.	569 156	488 793
Duży Ben Sp. z o.o.	523 108	406 478
Polska Dystrybucja Alkoholi Sp. z o.o.	494 728	635 746
DEF Sp. z o.o.	382 704	455 409
Lewiatan Wielkopolska Sp. z o.o.	382 501	326 182
Lewiatan Północ Sp. z o.o.	374 971	338 789
Lewiatan Opole Sp. z o.o.	309 033	199 713
Ambra Sp. z o.o.	269 971	171 331
PayUp Polska S.A.	247 568	380 206
Lewiatan Zachód Sp. z o.o.	199 051	246 173
Lewiatan Podkarpacie Sp. z o.o.	144 368	71 276
Lewiatan Orbita Sp. z o.o.	139 652	83 190
Sushi 2 Go Sp. z o.o. (previously Sushi To Go Sp. z o.o. Sp. k	139 128	146 966
ABC na kołach Sp. z o.o.	137 109	116 098
Eurocash Convenience Sp. z o.o.	128 164	387 917
4vapers Sp. z o.o.	125 789	102 775
FHC-2 Sp. z o.o.	113 592	112 971
Detal Finanse Sp. z o.o.	93 726	85 995
Firma Rogala Sp. z o.o.	54 000	54 000
Inmedio Sp. z o.o.	42 000	42 265
Premium Distributors Sp. z o.o.	31 987	31 987
Akademia Umiejętności Eurocash Sp. z o.o.	22 574	-
Przedsiębiorstwo Handlu Spożywczego Sp. z o.o.	18 394	18 394
Eurocash Detal Sp. z o.o.	17 372	17 372
Ledi Sp. z o.o.	12 782	3 652
JIM Sp. z o.o.	10 649	3 043
Cerville Investments Sp. z o.o.	9 698	-
Eurocash VC3 Sp. z o.o.	9 600	9 600
Eurocash VC2 Sp. z o.o. w likwidacji	9 450	11 340
MILA S.A.	4 805	-
Eurocash Trade 1 Sp. z o.o.	1 740	1 740
Eurocash Trade 2 Sp. z o.o.	1 740	1 740
Madas Sp. z o.o.	-	482
Detal Podlasie Sp. z o.o.	-	-
<b>Total</b>	<b>67 775 992</b>	<b>59 560 766</b>

<i>Separate financial statements of EUROCASH S.A.</i>			
Financial statements period:	1 January -31 December 2018	Presentation currency:	Polish zloty (PLN)
Level of round-offs:	All amounts are expressed in Polish zloty (unless indicated otherwise)		

<b>Interest revenues</b>	<b>01.01-31.12.2018</b>	<b>01.01-31.12.2017</b>
MILA S.A.	844 073	-
Eurocash Trade 1 Sp. z o.o.	257 671	-
Przedsiębiorstwo Handlu Spożywczego Sp. z o.o.	240 592	285 913
PayUp Polska S.A.	19 728	-
Cerville Investments Sp. z o.o.	10 115	279
4vapers Sp. z o.o.	4 732	-
Kontigo Sp. z o.o.	2 515	-
Polska Dystrybucja Alkoholi Sp. z o.o.	-	225 293
EKO Holding S.A.	-	180 022
EC VC7 Sp. z o.o.	-	4 853
Ambra Sp. z o.o.	-	1 024
<b>Total</b>	<b>1 379 428</b>	<b>697 385</b>

<b>Dividends</b>	<b>01.01-31.12.2018</b>	<b>01.01-31.12.2017</b>
Firma Rogala Sp. z o.o.	2 546 276	1 829 088
Eurocash Serwis Sp. z o.o.	1 415 287	23 576 593
FHC-2 Sp. z o.o.	1 144 013	-
Madas Sp. z o.o.	148 443	-
<b>Total</b>	<b>5 254 020</b>	<b>25 405 680</b>

<b>Other income</b>	<b>01.01-31.12.2018</b>	<b>01.01-31.12.2017</b>
Eurocash Serwis Sp. z o.o.	343 889	189 025
PayUp Polska S.A.	1 112	1 478
MILA S.A.	573	-
Eurocash Detal Sp. z o.o.	216	290
Ambra Sp. z o.o.	-	1 565
<b>Total</b>	<b>345 789</b>	<b>192 357</b>

<b>Costs of goods sold</b>	<b>01.01-31.12.2018</b>	<b>01.01-31.12.2017</b>
Lewiatan Holding S.A.	274 327 465	239 660 959
Eurocash Serwis Sp. z o.o.	93 574 538	66 876 361
DEF Sp. z o.o.	161 275	153 152
Premium Distributors Sp. z o.o.	73 812	117 653
<b>Total</b>	<b>368 137 090</b>	<b>306 808 125</b>

Separate financial statements of EUROCASH S.A.			
Financial statements period:	1 January -31 December 2018	Presentation currency:	Polish zloty (PLN)
Level of round-offs:	All amounts are expressed in Polish zloty (unless indicated otherwise)		

Costs of services	01.01-31.12.2018	01.01-31.12.2017
Eurocash Franczyza Sp. z o.o.	63 865 623	52 915 382
Eurocash Serwis Sp. z o.o.	41 664 536	82 921 844
Ledi Sp. z o.o.	27 282 598	6 256 130
Firma Rogala Sp. z o.o.	16 193 586	12 828 056
FHC-2 Sp. z o.o.	8 367 923	6 764 747
Euro Sklep S.A.	5 375 519	4 272 832
Lewiatan Śląsk Sp. z o.o.	4 403 894	3 931 811
Lewiatan Kujawy Sp. z o.o.	3 958 957	3 507 150
Lewiatan Podlasie Sp. z o.o.	3 208 895	3 033 153
Lewiatan Wielkopolska Sp. z o.o.	2 497 745	2 215 842
Lewiatan Północ Sp. z o.o.	2 382 041	2 250 200
Lewiatan Opole Sp. z o.o.	2 142 640	1 823 315
Lewiatan Zachód Sp. z o.o.	1 602 620	1 201 653
Lewiatan Orbita Sp. z o.o.	1 387 223	1 149 578
Akademia Umiejętności Eurocash Sp. z o.o.	1 105 967	-
Madas Sp. z o.o.	1 039 727	848 466
Lewiatan Holding S.A.	727 976	793 349
Lewiatan Podkarpacie Sp. z o.o.	707 823	539 263
Eurocash Detal Sp. z o.o.	649 079	632 160
EKO Holding S.A.	476 521	33 742
JIM Sp. z o.o.	467 293	110 880
Ambra Sp. z o.o.	291 481	40 516
DEF Sp. z o.o.	228 166	71 360
Polska Dystrybucja Alkoholi Sp. z o.o.	160 954	30 525
Duży Ben Sp. z o.o.	139 075	-
Przedsiębiorstwo Handlu Spożywczego Sp. z o.o.	32 365	22 684
Premium Distributors Sp. z o.o.	21 638	103 470
Eurocash VC2 Sp. z o.o. w likwidacji	20 131	22 684
MILA S.A.	1 105	-
Inmedio Sp. z o.o.	-	443
<b>Total</b>	<b>190 403 101</b>	<b>188 321 235</b>

Interest costs	01.01-31.12.2018	01.01-31.12.2017
Eurocash Group (cashpool)	9 834 607	7 211 609
<b>Total</b>	<b>9 834 607</b>	<b>7 211 609</b>



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Level of round-offs:	All amounts are expressed in Polish zloty (unless indicated otherwise)		

# NOTE 31.

## REMUNERATION AND OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Members of the Management Board and the Supervisory Board are considered as key management personnel. The table below presents information of total remuneration, bonuses, rewards and other benefits paid or payable to the Members of the Management Board and the Supervisory Board during the period from 1 January 2018 to 31 December 2018.

There were no other transactions noted during the reporting period which would involve Members of the Management Board and the Supervisory Board.

### REMUNERATION OF MEMBERS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD IN THE PERIOD FROM 01.01 TO 31.12.2018

	Basic salary	Other benefits	Management options	Total
<i>Remuneration of the Members of the Management Board</i>				
Luis Amaral	480 000	17 316	-	497 316
Rui Amaral	1 560 000	17 316	-	1 577 316
Arnaldo Guerreiro	1 020 000	28 836	-	1 048 836
Pedro Martinho	1 200 000	28 906	-	1 228 906
Katarzyna Kopaczewska	960 000	17 316	-	977 316
Jacek Owczarek	1 080 000	28 836	-	1 108 836
Przemysław Ciaś	775 667	34 215	-	809 882
Paweł Musiał	140 000	20 532	-	160 532
	<b>7 215 667</b>	<b>193 275</b>	-	<b>7 408 941</b>
<i>Remuneration of the Members of the Supervisory Board</i>				
Joao Borges de Assuncao	213 975	-	-	213 975
Eduardo Aguinaga de Moraes	67 515	-	-	67 515
Francisco José Valente Hipólito dos Santos	213 975	-	-	213 975
Hans Joachim Körber	213 975	-	-	213 975
Jacek Sz wajcowski	213 975	-	-	213 975
Alicja Kornasiewicz	147 055	-	-	147 055
	<b>1 070 470</b>	-	-	<b>1 070 470</b>

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Level of round-offs:	All amounts are expressed in Polish zloty (unless indicated otherwise)		

## REMUNERATION OF MEMBERS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD IN THE PERIOD FROM 01.01 TO 31.12.2017

	Basic salary	Other benefits	Management options	Total
<i>Remuneration of the Members of the Management Board</i>				
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 Ciał	747 000	279 916	-	1 026 916
	<b>6 844 105</b>	<b>2 582 964</b>	-	<b>9 427 069</b>
<i>Remuneration of the Members of the Supervisory Board</i>				
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 Szwajkowski	212 305	-	-	212 305
	<b>1 061 525</b>	-	-	<b>1 061 525</b>

### NOTE 32. EMPLOYMENT

The number of employees as at 31.12.2018 is presented below:

#### NUMBER OF EMPLOYEES AS AT 31.12.2018

	as at 31.12.2018	as at 31.12.2017
Number of employees	8 772	9 040
Number of full-time jobs	8 699	8 964

The employment structure as at 31.12.2018 is presented below:

#### STRUCTURE OF EMPLOYMENT AS AT 31.12.2018

	Wholesale discounts and distribution centres	Head office	Total
Number of employees	7 339	1 433	<b>8 772</b>
Number of full-time jobs	7 274	1 425	<b>8 699</b>

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Employee turnover data as at 31.12.2018 are presented below:

#### EMPLOYEE TURNOVER IN THE PERIOD FROM 01.01 TO 31.12.2018

	for the period from 01.01.2018 to 31.12.2018	for the period from 01.01.2017 to 31.12.2017
Number of hired employees	2 837	2 697
Number of dismissed employees	(3 105)	(3 023)
	<b>(268)</b>	<b>(326)</b>

#### NOTE 33. DATA CONCERNING ITEMS NOT INCLUDED IN THE STATEMENT OF FINANCIAL POSITION

##### CONTINGENCIES AS AT 31.12.2018

No.	Beneficiary	Title	Currency	as at 31.12.2018	as at 31.12.2017
1	Bank 1 **	Surety for the Eurocash Group companies regarding the cash pool agreement in the amount of the credit limit	PLN	2 279 500 000	2 279 500 000
2	Company 1 **	Surety for liabilities of PayUp Polska S.A.	PLN *	1 290 000	2 085 450
3	Bank 2 **	Surety for trade liabilities of Eurocash Serwis Sp. z o.o. and Eurocash Trade 1 Sp. z o.o. resulting from the Factoring Agreement	PLN	480 000 000	480 000 000
4	Bank 3***	Surety for liabilities resulting from the "Franchise Partners Financing Program" for the Franchisee of Delikatesy Centrum	PLN	4 465 792	7 653 291
5	Bank 4 **	Surety for liabilities of Eurocash Serwis Sp. z o.o. under the Lease Agreement	PLN	2 323 414	3 417 792
6	Bank 5 **	Surety for liabilities of Eurocash Detal Sp. z o.o. under the Lease Agreement	PLN	203 734	378 657
7	Bank 6 **	Surety for liabilities of Eurocash Serwis Sp. z o.o. under the Current Loan Agreement Agreement	PLN	165 000 000	165 000 000
8	Company 2 **	Surety for trade liabilities of Eurocash Serwis Sp. z o.o.	PLN	29 000 000	29 000 000
9	Bank 7 **	Surety for liabilities of Partnerski Serwis Detaliczny S.A. under the Lease Agreement	PLN	78 411	131 168
10	Bank 8 **	Surety for commitments of Frisco S.A. under the Sales Agreement	PLN *	6 911 000	28 021 186
11	Bank 9 **	Surety for liabilities of Eurocash Serwis Sp. z o.o., resulting from the Factoring Agreement	PLN	240 000 000	240 000 000
12	Bank 10	Surety for the Eurocash Group companies regarding the cash pool agreement in the amount of the credit limit	PLN	3 144 480 000	3 144 480 000
13	Bank 11	Guarantee of the revolving loan of Frisco S.A.	PLN	5 000 000	5 000 000
14	Bank 12	Surety for liabilities of Mila S.A.		8 700 000	-
				<b>6 366 952 351</b>	<b>6 384 667 544</b>

\* - Guarantee in EUR is translated into PLNB at the average exchange rate of NBP:  
as at 31.12.2017: 1 EUR = 4,1709 PLN,  
as at 31.12.2018: 1 EUR = 4,3 PLN.

\*\* at nominal value

\*\*\* at debt value as at balance sheet date

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#### OTHER BANK GUARANTEES AS AT 31.12.2018

No	Bank guarantee drawer	Title	Currency	as at 31.12.2018	as at 31.12.2017
1	Bank 1	Security for rent liabilities	PLN	1 522 370	6 303 754
2	Bank 2	Security for rent liabilities	PLN*	28 472 665	26 312 770
3	Bank 3	Security for excise duty	PLN	300 000	2 700 000
4	Bank 4	Security for payment for suppliers	PLN	-	20 000 000
5	Bank 5	Security for payment with the use of national road viaToll	PLN	620 100	-
6	Bank 6	Security for promotional lottery	PLN	786 640	54 556
7	Bank 7	Payment security for suppliers *	PLN	15 414 936	4 170 900
8	Bank 8	Payment security for suppliers	PLN	30 000 000	-
				<b>77 116 710</b>	<b>59 541 980</b>

\* - Guarantee in EUR is translated into PLNB at the average exchange rate of NBP:  
as at 31.12.2017: 1 EUR = 4,1709 PLN,  
as at 31.12.2018: 1 EUR = 4,3 PLN.

#### COLLATERALS

##### SECURITY ON ASSETS AS AT 31.12.2018

Title	Secured property	as at 31.12.2018	as at 31.12.2017
Security of an agreement on a credit line **	Deposit on the inventories	90 000 000	90 000 000
Security on the syndicated loan agreement	Deposit on the Eurocash Franczyza Sp. z o.o. shares	-	9 547 300
Security of an agreement on a credit line **	Deposit on the inventories	88 000 000	
Security on the syndicated loan agreement	Deposit on the Eurocash Franczyza Sp. z o.o. shares	-	3 800 000
Finance lease agreements (at net value of tangible fixed assets on the balance sheet date)	Deposit on fixed assets in financial leasing	1 024 668	3 904 574
		<b>179 024 668</b>	<b>107 251 874</b>

\*\* at the nominal value of the security

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## NOTE 34. FINANCIAL RISK MANAGEMENT

### a. General information

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operating risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes used to measure and manage risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Management Board of the Company bears the overall responsibility for the establishment and oversight of the Company's risk management framework. In order to fulfill these requirements, the Board has established a Risk Management Committee, which is responsible for developing and monitoring the Company's risk management policies. The committee reports regularly to the Management Board on its activities.

The Risk Management Committee is established to identify and analyze the risks related to the Company's activities, to set appropriate risk limits and controls, and to monitor any variations against those limits. Risk management policies and systems are reviewed regularly to reflect changes in the market conditions and the Company's activities. The Company, 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.

The Internal Audit Department which operates at the Company oversees how management monitors compliance with the Company'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 Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities.

The Company's maximum exposure to credit risk is presented in the table below.

#### CREDIT RISK EXPOSURE

	as at 31.12.2018	as at 31.12.2017
Accounts receivable and loans	1 174 136 384	1 398 796 041
Cash and cash equivalents	96 421 237	113 237 478
	<b>1 270 557 621</b>	<b>1 512 033 520</b>

\* excluding cash

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### Trade receivables and other receivables

Due to the fact that the Company's customers are highly fragmented and scattered, there is no concentration of credit risks.

The Company's credit risk regarding receivables varies depending on the particular group of clients cooperating with the Company, as follows:

- sales realized in cash constitute over 90% of total sales realized by wholesalers and therefore there is no credit risk related thereto,
- sales of servicing to franchise networks and independent clients is mostly on a credit basis and is therefore characterized by a greater volume of overdue receivables. However, counterparties credit risk is moderate,
- sales of marketing services to suppliers of goods (promotions, newsletters, advertising brochures) are exposed to minor credit risk, as the related payments, as a result of additional arrangements, are offset with amounts payable to suppliers
- 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.

The Company monitors the amount of overdue receivables on an ongoing basis and in justified cases initiates legal proceedings and makes allowances for bad debts.

The tables below present the aging structure of trade receivables and bad debts allowances:

#### AGEING OF TRADE RECEIVABLES AND BAD DEBT ALLOWANCES AS AT 31.12.2018

	Trade receivables gross value as at 31.12.2018	Bad debts allowance as at 31.12.2018	Trade receivables gross value as at 31.12.2017	Bad debts allowance as at 31.12.2017
current	877 131 692	-	1 039 094 850	-
0-30 days	155 035 045	-	149 738 488	-
31-90 days	39 019 649	-	42 515 151	-
91-180 days	1 794 724	-	11 981 105	-
> 180 days	49 510 103	39 302 584	56 519 044	41 368 352
	<b>1 122 491 213</b>	<b>39 302 584</b>	<b>1 299 848 638</b>	<b>41 368 352</b>

#### ALLOWANCE FOR BAD DEBTS AS AT 31.12.2018

	for the period from 01.01.2018 to 31.12.2018	for the period from 01.01.2017 to 31.12.2017
<b>Opening balance</b>	<b>41 368 352</b>	<b>46 146 069</b>
Increases*	-	-
Decreases*	(2 065 768)	(4 777 717)
<b>Closing balance</b>	<b>39 302 584</b>	<b>41 368 352</b>
*net value		

### Investments

Cash and cash equivalents are deposited with reputable financial institutions and the Company does not expect any counterparties to fail to meet their obligations.

### Guarantees

The Company's policy is to provide financial guarantees only to wholly-owned affiliates and to regular key customers.

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### c. Liquidity risk

Liquidity risk is the risk of the Company being unable to repay its debts as they fall due.

Liquidity risk management policy consists of ensuring, as far as possible, cash necessary for the Company to repay its debts and investment obligations as they fall due, without incurring unacceptable losses or risking damage to the Company's reputation.

The basis for effective liquidity risk management at Company is an internal model of forecasting cash flows. Liquidity management is focused on detailed analysis, planning and acting in the following three areas:

- investments in fixed assets,
- working capital,
- net financial debt.

The Company's sales are closed mainly for cash. Moreover, the Company has a credit line agreement as a revolving loan (without the cash pool) facilities, up to PLN 700m, which can be used to meet its short-term financial requirements.

As at 31 December 2018, a large part of current liabilities refers to liabilities with related parties, including PLN 400m.

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.

Carrying amounts by the agreed due dates are presented in the following tables (excluding any agreements for mutual offsetting of receivables and payables):

#### AS AT 31.12.2018

	Net book value	< 12 months	1-5 years	over 5 years
Financial lease liabilities	1 874 590	1 343 024	531 566	-
Trade and other payables	2 937 837 869	2 936 776 069	1 061 800	-
Factoring	23 593 244	23 593 244	-	-
Bank overdrafts	1 014 433 854	1 014 433 854	-	-
Other finance liabilities	3 695 592	3 695 592	-	-
	<b>3 981 435 149</b>	<b>3 979 841 783</b>	<b>1 593 366</b>	<b>-</b>

#### AS AT 31.12.2017

	Net book value	< 12 months	1-5 years	over 5 years
Financial lease liabilities	2 993 775	2 368 542	625 233	-
Trade and other payables	3 115 328 020	3 114 424 520	903 500	-
Factoring	21 852 020	21 852 020	-	-
Bank overdrafts	691 467 746	691 467 746	-	-
Bond issue	219 533 443	219 533 443	-	-
Other finance liabilities	2 270 095	2 202 166	67 929	-
	<b>4 053 445 098</b>	<b>4 051 848 436</b>	<b>1 596 662</b>	<b>-</b>

As at 31 December 2018, there was a surplus of current liabilities of the Company over its current assets in the amount of PLN 2.09 billion which is typical for the industry in which the Company provides the activity, in which a significant part of sales is made on cash conditions, stock levels are minimized and suppliers provide deferred payment terms. At the same time, the Company is developing the retail network by involving its own funds and from external financing sources. The financial plans of the Management Board, containing operating and investment cash flow indicate that possessing sufficient sources of financing of the activity and maintaining the liquidity by the Company. Conditions related to credit agreements are being monitored, as at the balance sheet date, 31 December 2018, the terms of loan agreements were not broken. In addition, the Company has not used

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credit limits. Considering the above, as at the date of approval of these separate financial statements, there are no circumstances indicating a threat of a loss of financial liquidity by the Company.

#### **d. Market risk**

Market risk is the risk related to changes in demand, supply, and prices, as well as other factors (such as foreign exchange rates, interest rates, and equity prices) which will affect the Company's income or the value of its assets. The objective of market risk management is to manage and control market risk exposures within the acceptable limits, while optimizing risk returns.

#### **Currency risk**

Currency risk does not significantly affect the business activities of the Company, as the majority of the Company's payments are made in the local currency. In order to manage the currency risk regarding significant transactions in foreign currencies, the Company buys and sells derivatives. The Company is focused on an application of hedge accounting that would minimize the effect of profit and loss variability for the period. In 2018, as well as in 2017 year, the Company did not have any open positions in currency derivatives.

#### **Interest rate risk**

Interest rate risk is related to loans and credit facilities granted and taken out, respectively.

The table below presents the carrying amount of the Company financial instruments exposed to interest rate risk, divided by the age category.

#### **INTEREST RATE RISK**

##### **31 December 2018**

	<b>&lt; 1 year</b>	<b>2-5 years</b>	<b>&gt; 5 years</b>	<b>Total</b>
Finance lease liabilities	1 343 024	531 566	-	<b>1 874 590</b>
Credits and loans	1 014 433 854	-	-	<b>1 014 433 854</b>

##### **31 December 2017**

	<b>&lt; 1 year</b>	<b>2-5 years</b>	<b>&gt; 5 years</b>	<b>Total</b>
Finance lease liabilities	2 368 542	625 233	-	<b>2 993 775</b>
Credits and loans	691 467 746	-	-	<b>691 467 746</b>

The following table presents the Company's exposure profile (maximum exposure) to the risk of interest rate fluctuations, by presenting variable and fixed rate financial instruments.



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#### VARIABLE AND FIXED INTEREST RATE FINANCIAL INSTRUMENTS

	Present value 31.12.2018	Present value 31.12.2017
<b>Fixed interest rate instruments</b>		
Financial liabilities	5 570 182	5 263 870
<b>Floating interest rate instrument</b>		
Financial assets	1 272 230 361	1 514 479 115
Financial liabilities	3 975 864 967	4 048 181 228

The Company has analyzed variable-interest instruments' sensitivity to changes in market interest rates. The table below presents an impact of 100 pp increase and decrease interest rates 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 year and for the comparative period.

#### SENSITIVITY ANALYSIS OF FINANCIAL INSTRUMENTS

	Income statement		Equity	
	increases 100bp	decreases 100bp	increases 100bp	decreases 100bp
31 December 2018	(27 036 346)	27 036 346	-	-
31 December 2017	(25 337 021)	25 337 021	-	-

#### e. Capital management

The Company'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 Company monitors changes in the structure of shareholders, the return on capital and the level of dividends paid to shareholders.

It is the objective of the Company 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 Company's capital management goals, rules or processes in place during the presented period.

#### f. Fair value

As at 31 December 2018, fair value of financial instruments was similar to their carrying value. The Company 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 Company's assessment, the fair value of cash, trade receivables, trade payables, bank loans, loans and financial lease liabilities and other financial assets and liabilities does not differ significantly from the carrying amounts..

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Level of round-offs:	<i>All amounts are expressed in Polish zloty (unless indicated otherwise)</i>		

#### **NOTE 35.**

##### **OTHER SUBSEQUENT EVENTS**

There were no other significant events during the period covered by the financial statements, influencing the activity of the Company.

#### **NOTE 36.**

##### **IMPORTANT EVENTS AFTER THE PERIOD COVERED BY THE FINANCIAL STATEMENTS**

###### **1. Eurocash completes Partner acquisition**

On 4 March 2019 Eurocash Group has finalised a transaction to acquire a 100% stake in Partner, which operates 25 Lewiatan franchise stores.

The stake in Partner was sold by Asteria Holding, which counts Wojciech Kruszewski, the longterm CEO of Lewiatan Holding, as shareholder.

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## SIGNATURES OF MANAGEMENT BOARD MEMBERS

Position	Name and surname	Date	Signature
President of the Management Board	Luis Amaral	15 <sup>nd</sup> March 2019	
Management Board Member Chief Executive Officer	Rui Amaral	15 <sup>nd</sup> March 2019	
Management Board Member	Arnaldo Guerreiro	15 <sup>nd</sup> March 2019	
Management Board Member	Pedro Martinho	15 <sup>nd</sup> March 2019	
Management Board Member Human Resources Director	Katarzyna Kopaczewska	15 <sup>nd</sup> March 2019	
Management Board Member Financial Director	Jacek Owczarek	15 <sup>nd</sup> March 2019	
Management Board Member	Przemysław Ciaś	15 <sup>nd</sup> March 2019	