



# EUROCASH GROUP S.A.

## Report of the management board for the 2014



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# Letter from the president

Dear Shareholders,  
Dear Employees  
Ladies and Gentlemen!



I am pleased to present to you a summary of the past year. As expected, this was a difficult period for the entire food distribution market. A retail-market slowdown, continuing pricing pressure, deflation, as well as lower LFL sales across most of the market formats – these are the conditions that we faced in 2014. Despite tough environment, we effectively supported our clients – mainly small and medium stores – in their day-to-day business and in maintaining profitability. Secondly, we used this time to introduce further organisational changes across the Group, consolidate the market and create new retail formats that are opening up new growth opportunities both for us and our clients.

We put in a lot of effort into integrating Tradis (currently Eurocash Dystrybucja), having already completed the key stage of this process, with the first effects being visible in the final quarter of 2014. At the end of the year, KDWT finalised the merger with Service FMCG, an entity that acquired Kolporter's FMCG business. Thanks to the transaction, we have created the largest entity in the tobacco product distribution market – with an approx. 25% market share, annual revenue closing in on PLN 6 billion and about PLN 600 million in impulse product sales.

The past year was also a period in which we employed innovation in order to bring more benefits to our clients and end consumers. Importantly, as our 20 year history demonstrates, we did not copy ideas from others but simply listened to the needs of consumers.

# Letter from the president

We opened the first three KONTIGO stores, a brand designed exclusively with Polish women in mind and one that is intended to help us get into mass-market cosmetics. We changed the convenience format by developing a new store, 1minute, which is meant to keep up with the fast lifestyles of big-city consumers. We installed nearly 2500 "Faktoria Win" wine shelves in traditional-format stores in order to give clients greater variety in this emerging product group. We partnered with HDS in the Inmedio concept, not just to develop media-and-convenience locations but also, importantly, to transfer Inmedio's experiences over to traditional retail. At the end of 2014, we became a significant shareholder in Frisco.pl, the largest grocery operator in this segment in Warsaw. This project is teaching us how to apply and combine the advantages offered by online and traditional retail in the future.

All of the initiatives outlined above constitute our investment in the future of both Eurocash Group and our clients – independent retailers. In our vision for the future, the independent retailer is a regional entrepreneur operating two or three supermarkets, a Kontigo store and a 1minute location. This scale makes it possible to maintain true competitiveness versus large-format stores and to reach the consumer by offering better service, quality and location, whilst maintaining attractive prices.

Entrepreneurship remains, in our view, the main factor differentiating Poland from most of the other European countries. It is the enterprising spirit of our clients, supported by Eurocash Group, that is driving the re-emergence of small and medium stores, allowing them to remain the most important segment of the distribution market.

I hope you will enjoy reading our report. As mentioned earlier, we are through a year that was tough for the entire market, which is reflected in our below-target financial results. Having said that, I am proud of the work we did in 2014 and the innovations we introduced, which will yield benefits for Eurocash Group and our clients in the future. I would also like to thank all of our clients, employees, shareholders and partners for their work and support throughout 2014, thanks to which we are entering 2015 on a much stronger note than last year.

Sincerely,



Luis Amaral  
CEO, Eurocash S.A.

Table 1. Eurocash Group: Summary of Financial Performance

Eurocash Group consolidated sales in 2014 reached PLN 16 963.85m, EBITDA amounted to PLN 412.46m, and net profit of PLN 183.12m.

Despite of weak market conditions on the food distribution market sales in 2014 amounted to PLN 16 963.85m, and PLN 16 708.66m excluding of Service FMCG and Inmedio (please see current reports 53/2014 and 54/2014), which represents increase by 2.58% and 1.03% comparing with 2013. Sales growth dynamics was also affected by termination of contract with Stokrotka chain in June 2013 (please see current report No 6/2013. Sales to Stokrotka in 2013 amounted to PLN 372m).

	PLN m	2014	2013	Change 2014/2013
Revenues from the sales of products, goods, and materials		16 963,85	16 537,53	2,58%
EBITDA (EBIT + amortization) (EBITDA %)		412,46 2,43%	402,14 2,43%	2,57% 0,00 p.p.
Operating profit – EBIT (Operating margin - EBIT %)		287,17 1,69%	285,69 1,73%	0,52% -0,04 p.p.
Net profit on continued operations		218,81	226,08	-3,21%
(Net profit yield %)		183,12	221,01	-17,14%



Eurocash Group improved its profitability on sales, which was related to gross margin increase by 0.56 p.p., EBITDA increased in 2014 by PLN 10,30m comparing with 2013. Net profit decreased to PLN 183.12m, which was attributable to increased level of working capital financing (2.1x Net Debt /EBITDA) and higher effective tax rate. In 2014 average effective tax rate amounted to 16%, comparing with 2% in 2013 where such low effective tax rate was related to recognition of deferred tax asset in 2013.

At 2014 year end, the Eurocash Cash&Carry chain increased by 10 and totaled 168 outlets. The number of abc franchise stores amounted at the end of 2014 to 6 997, and increased by 864 outlets. The number of Delikatesy Centrum franchise stores went up by 128 and totaled 1003 outlets at 2014 year end.

The sales of Cash&Carry format to external customers in 2014 amounted to PLN 4 737.23m - an increase by 3.18%. The wholesale sales to Delikatesy Centrum stores increased by 8.67% reaching level of PLN 1 797.62m. The sales of Eurocash Dystrybucja (before Tradis) in connection with business restructuring during 2014 and termination of

contract with Stokrotka chain in mid 2013 decreased by 11.10% vs. 2013 and amounted to PLN 4 265.10m. Alcohol distribution realized by old Premium Distributors companies amounted to PLN 2 087.21m, an increase by 10.34%. The external sales of Eurocash Gastronomia decreased to level of PLN 535.98m, which was attributable to termination of contract with Amrest, one of the main clients. Sales in Tobacco and Impulse format increased by 11.67% and amounted to PLN 3 291.00m. Excluding sales of Service FMCG in 2014 sales in this format amounted to PLN 2 946.85 and increased by 4.7%.

Other formats of Eurocash Group, including inter alia PayUp (consolidated since May 2014) and Inmedio (consolidated since December 2014) realized external sales at level of PLN 249.61m

Chart 1. Eurocash Group sales growth according to business units

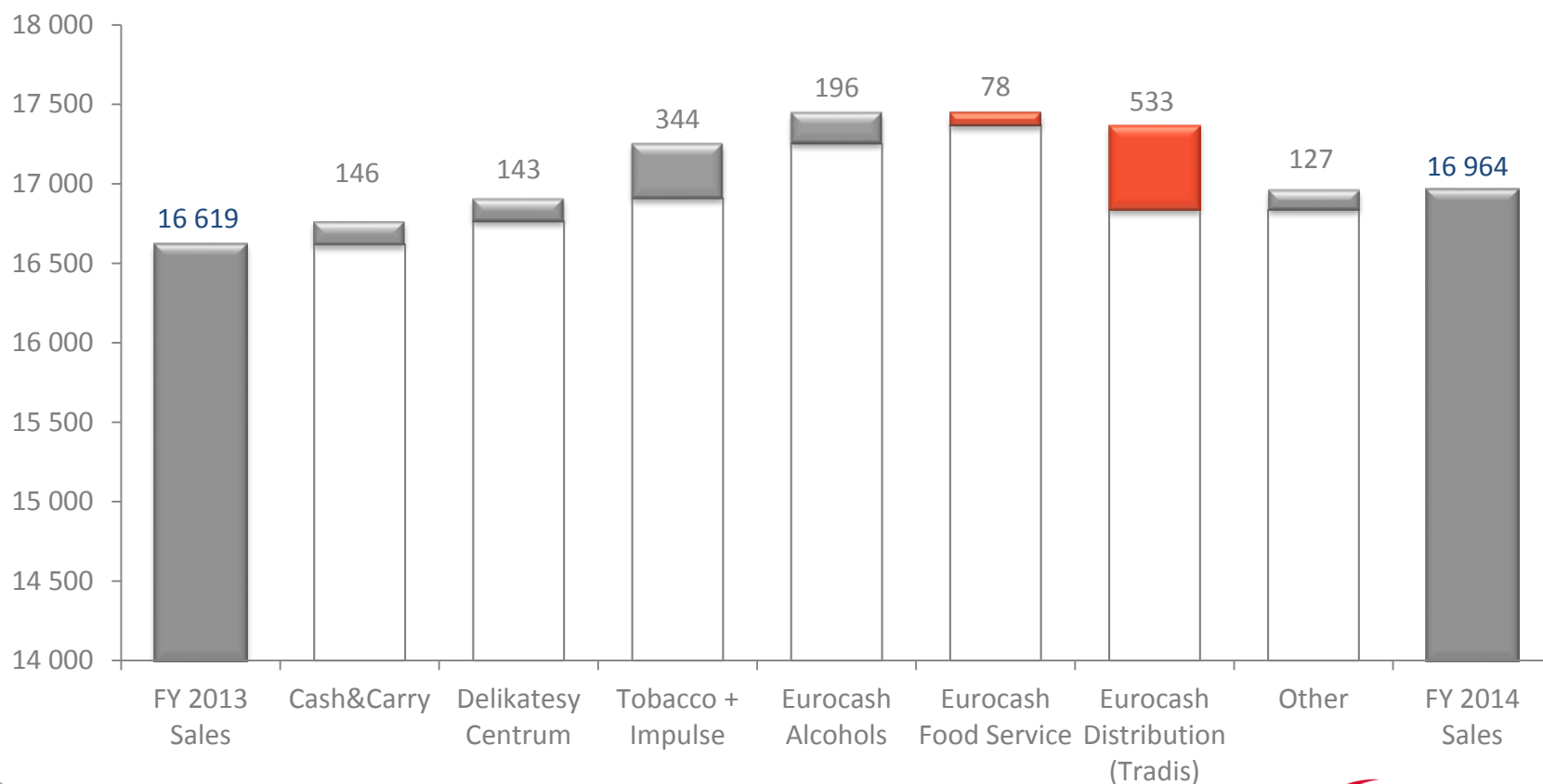
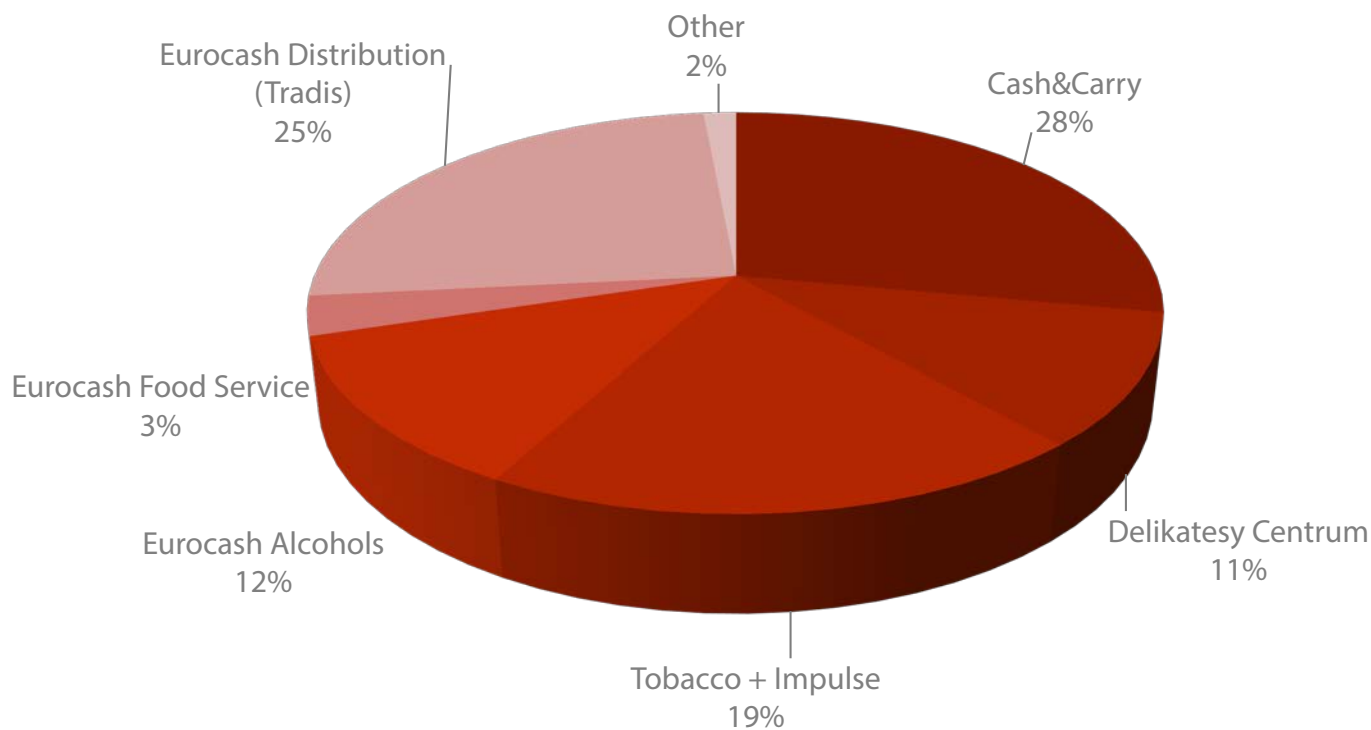


Chart 2. Eurocash Group sales in 2014 according to business units



### 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 have 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**

	2014	2013	2012
Real GDP change (in %)	3,3*	1,6	1,9
Consumer price index change (in %)	0,0	0,9	3,7
Registered unemployment** (in %)	11,5	13,4	13,4

*Source: Central Statistical Office*

*\* Preliminary data*

*\*\* As at year end*

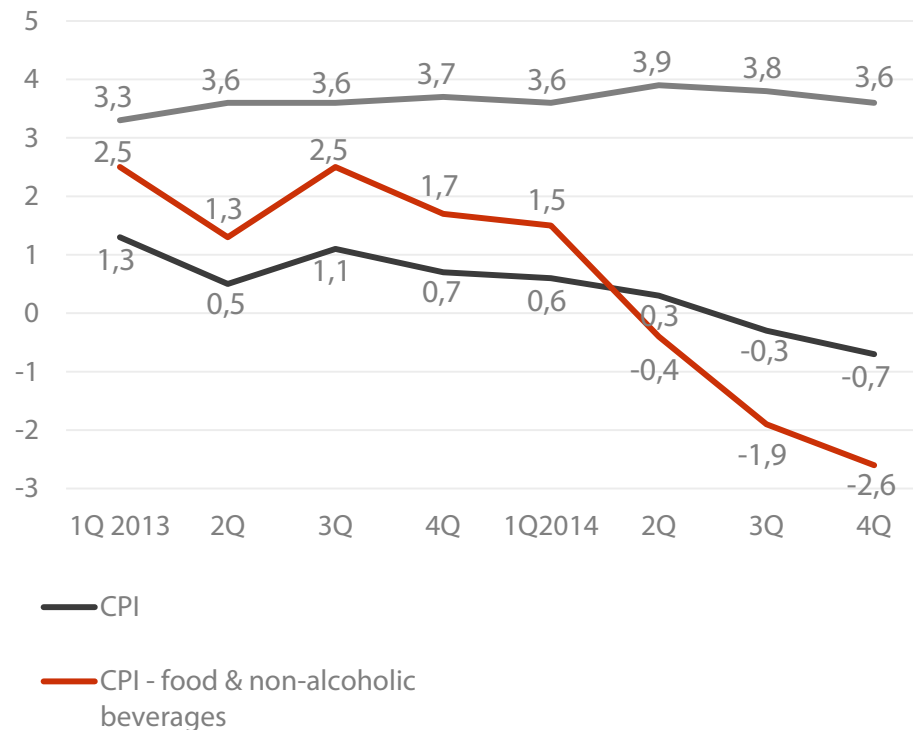
Poland's economic growth, as measured by real GDP growth, according to preliminary estimates, amounted in 2014 to 3.3% compared to 1.6% in 2013. In 2014, the fastest - growing sector of the economy was the construction - the value added in this sector increased by 4.7% year on year, compared with an increase of 1.0% in 2013. For comparison, in 2014, the industry sector recorded growth of 3.6% and the trade sector increased by 3.4%.

Prices of consumer goods and services in 2014 were flat comparing with previous year. Prices of food and non-alcoholic beverages in 2014 decreased by 0,9% and prices of alcoholic beverages and tobacco products increased by 3.7% y/y, which was attributable to increase of excise tax at the beginning of 2014.

On the chart below is presented the consumer prices index evolution on a quarterly basis.

At the end of December 2014, the registered unemployment rate in the country has not changed compared to the previous year and amounted to 11.5%.

**Chart 3. Price indices of consumer goods and services (CPI)\***



\*corresponding period of previous year = 0

Source: Central Statistical Office of Poland

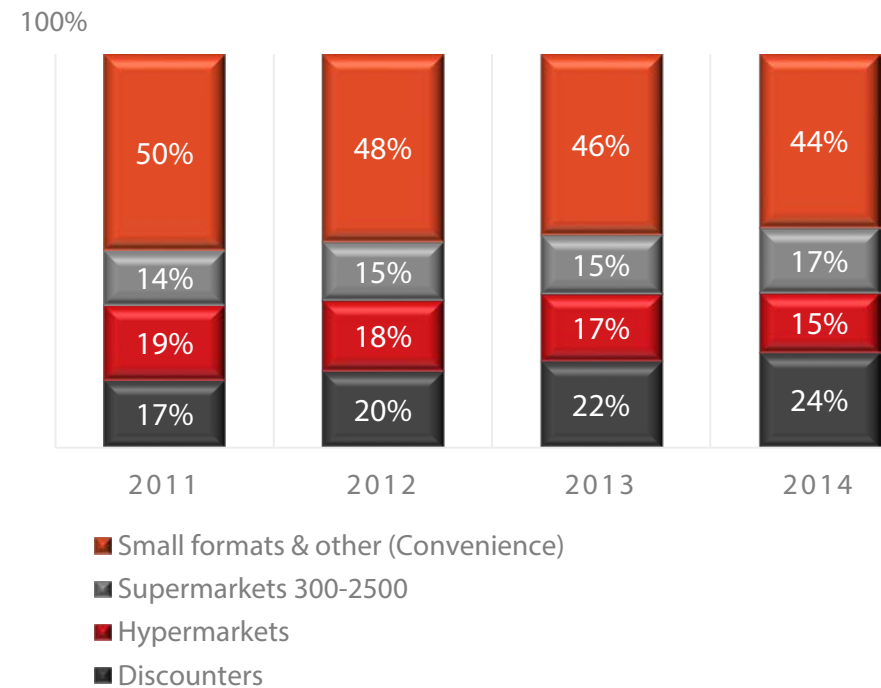


### Polish FMCG market - general information

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

According to the GfK Polonia Sp. z o.o., the FMCG market in 2014 in Poland amounted to PLN 224.9 billion, which represents an increase of 1.3% compared with 2013 (PLN 222.0 billion). About 87% of the total FMCG market value belongs to retail stores (large and small formats) and 13% of sales is generated by the HoReCa sector. Market share of large-format stores continues to increase. The highest increase were noted by Discounters and Supermarkets as main drivers, and Hypermarkets were donors of market share. Share of small-format stores also decreased in 2014 and dropped to app. 44% from 45.5% in 2013. In the same time total number of small-format grocery stores decrease by 3.8% reaching app. 77,5 thousand stores at the end of 2014.

Chart 4. Structure of FMCG Market in Poland



Source: GfK Polonia

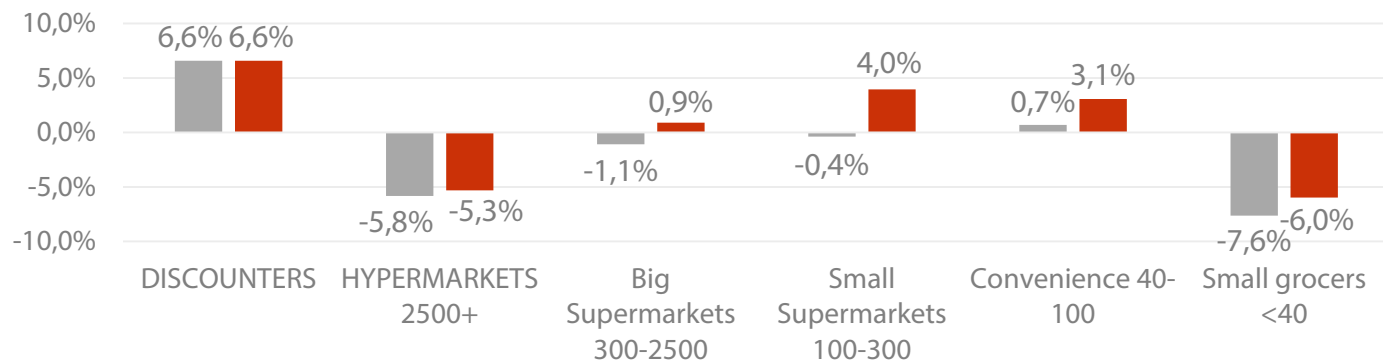
# Eurocash Group business overview

## 2.1. Market Environment

Also according to Nielsen researches in large-format stores segment, Discounters had the highest increase of sales (6.6% in 2014) and hypermarkets were losing market shares with 5.3% sales decrease. It should be noticed that sales of small-format stores were stable (an increase by 0.3%).

In this segments stores with sales area above 40 sqm and convenience stores noted sales increase respectively by 4.0% y/y and 3.1% y/y and the smallest stores with sales area below 40sqm noted sales decrease by 6.0% y/y

**Chart 5. Last Twelve Month (LTM\*) sales dynamics of FMCG\*\* products**



Source: Nielsen

\* LTM Jan 2015 = from January 2014 to January 2015

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

■ LTM Jan 2014

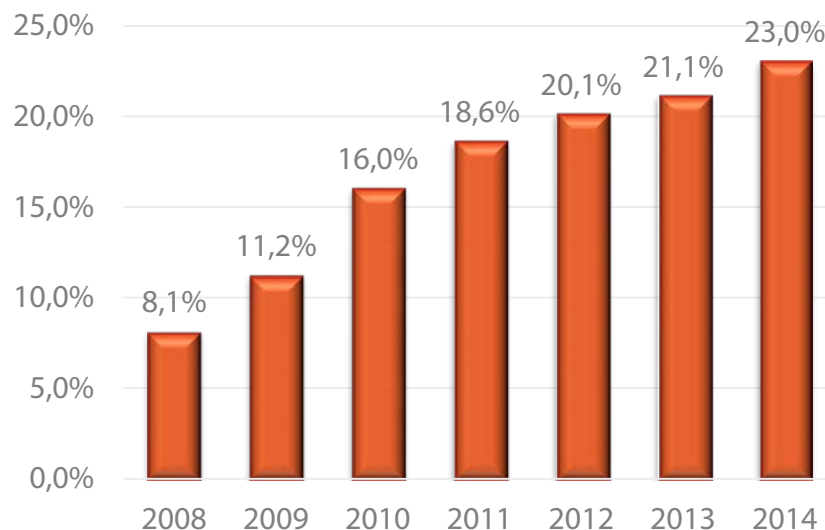
■ LTM Jan 2015

### 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 2014, Eurocash Group represented a 23.0% share in the wholesale market of FMCG products, which was a 2 p.p. increase on the previous year. Below is presented the evolution of Eurocash Group market share during last seven years. It should be noted, that including effects of the mergers and acquisitions the pro-forma market share of Eurocash would amount to app. 26% in 2014.

**Chart 6. Market share of Eurocash Group during 2008-2014**



Source: Own estimates following GfK Polonia

## 2.1. Market Environment

**Polish FMCG Market Trends**

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 GfK Polonia, large format stores (supermarkets, hypermarkets and discount stores) have market of approximately 56% of major retail channels whereas small format stores - approximately 44%. According to Eurocash, there is no evidence that the role of traditional retail trade will continue to dramatically diminish in the coming years. This is supported by both external conditions (the demographic structure) as well as internal conditions (which mainly consist of consolidation and modernization mechanisms which facilitate effective competition with large format outlets.) Pooling grocery stores and small supermarkets into franchise networks - both traditional in nature (which are in fact a form of loyalty programs) as well as modern ones (which tie retailers strongly to their supplier) a manifestation of this trend. According to estimates released by GfK Polonia, the total number of retail outlets associated in networks was approximately 27.500 thousand in 2014 (increase of 12.2% in comparison to the year 2013).

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.

The Company anticipates that the coming years may bring further market consolidation (both wholesale and retail) which may result in a further reduction in the number of competing entities. As example - in 2014 Auchan took over 49 out of 57 locations of Real.

## 2.2. Eurocash Group: Business Formats



The Eurocash Group is one of the largest groups in Poland in terms of sales values and the number of outlets involved in the distribution of food products, household chemicals, alcohol, and tobacco products (fast moving consumer goods – FMCG.) Through a range of distribution formats, the Eurocash Group focuses its business activities on the wholesale distribution to customers across all significant wholesale market segments, in particular, to small format stores throughout Poland such as traditional retail stores (small supermarkets and grocery stores), convenience stores at petrol stations, restaurants, hotels and cafeterias.

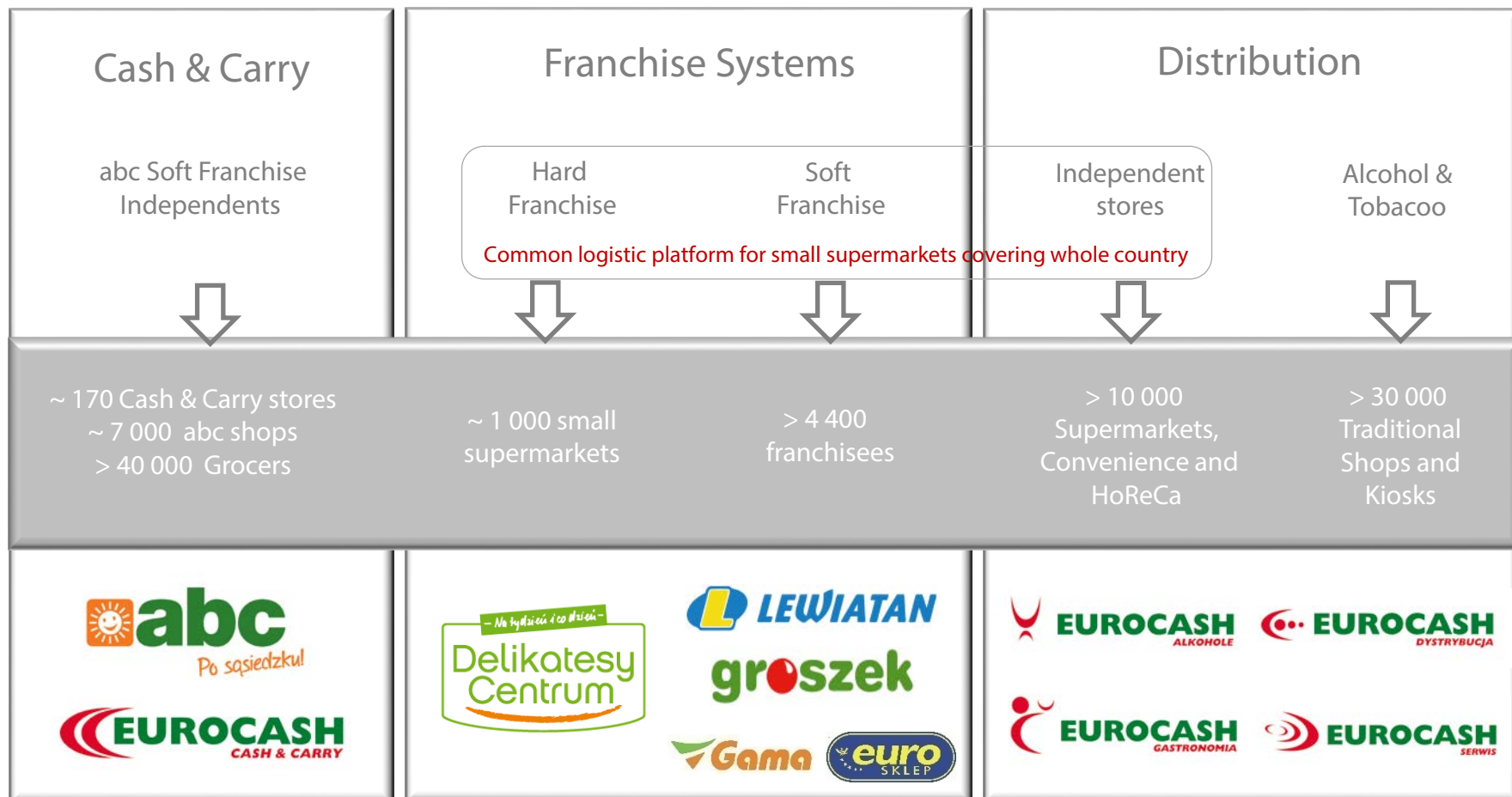
The Eurocash Group operates a range of distribution formats focused on supplying independent stores in Poland, which primarily include the following:

- Cash & Carry
- Franchise systems
- Distribution



## 2.2. Eurocash Group: Business Formats

Chart 7. Eurocash Group focused on small format stores



## 2.2. Eurocash Group: Business Formats

**Cash & Carry** – a nation-wide network of discount Cash&Carry type warehouses which operate under the “Eurocash Cash & Carry” brand, with the loyalty program for the “abc” network of grocery stores.

**Franchise Systems:**

- **Delikatesy Centrum** – a franchise system for retail stores which operate under the Delikatesy Centrum brand.
- Over 4 362 retail franchise and partner stores under the brands: Lewiatan, Groszek, Euro Sklep, Gama supplied by Eurocash Dystrybucja.

**Distribution:**

- **Eurocash Dystrybucja** - the biggest polish nationwide distributor of FMCG providing trade of products with service to the client with the broad range of assortment.
- **Eurocash Gastronomia** – supply network for restaurant chains, hotels, and petrol stations
- **Eurocash Alkohole** – specialized wholesale and retail distribution of alcoholic beverages throughout Poland.
- **Eurocash Serwis** – active distribution of tobacco products and fast moving consumer goods through KDWT and Service FMCG since 1<sup>st</sup> December 2014.

**Other** – aside from the core business indicated above, the Eurocash Group also distributes electronic financial services through a network of approximately 4,9 terminals located in stores nationwide through PayUp, which offers, e.g. mobile top ups, bill payments, and charge card payments. Eurocash Group distributes also tobacco and impulse products to press stores throughout Inmedio (Eurocash Group controls 51% of shares).

## 2.3. Number of outlets

As at 31 December 2014, the wholesale network of Eurocash Group comprised 168 Cash&Carry warehouses (including 3 Batna warehouses). The Delikatesy Centrum network comprised 1003 supermarkets, while the 'abc' network comprised 6 997 local grocery stores and number of stores associated in networks managed by Tradis was 4 362.

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

**Table 3. Number of Cash & Carry warehouses and franchise stores**

	As at 31 December				Change	Change	Change
	2014	2013	2012	2011	2014/2013	2013/2012	2012/2011
Cash & Carry Warehouses	165/168*	155/158*	145/148*	134/137*	10	10	11
Delikatesy Centrum	1003	875	773	650	128	102	123
„abc” store network	6 997	6 133	5 451	4 114	864	682	799
Franchise and partner stores of Tradis	4 362	4 325	4140	4114	37	185	26

Source: Eurocash

\*The number also takes into account 3 cash & carry warehouses of Batna acquired by the Group as a result of the takeover of Batna in November 2010

## 2.4. Sales Structure

Basic groceries (food and drinks – both alcoholic and non-alcoholic) represent key sales items for the Eurocash Group. In 2014, the share of these products accounted for approximately 77.9% of the total sales figure against 78.5% noted in 2013. The second most important sales contributor comprised of tobacco products, pre-paid top ups, and phone cards - with the share of 18.8% in 2014 against 18.0% noted in 2013. The share of other non-food products (including cosmetics, household chemicals, OTC drugs, and others) accounted for 3.3% in 2014 against 3.5% noted in 2013.

Due to the large dispersion of the sale, none of the customers of the Eurocash Group reached 10% of the Group's sales revenue Eurocash total.

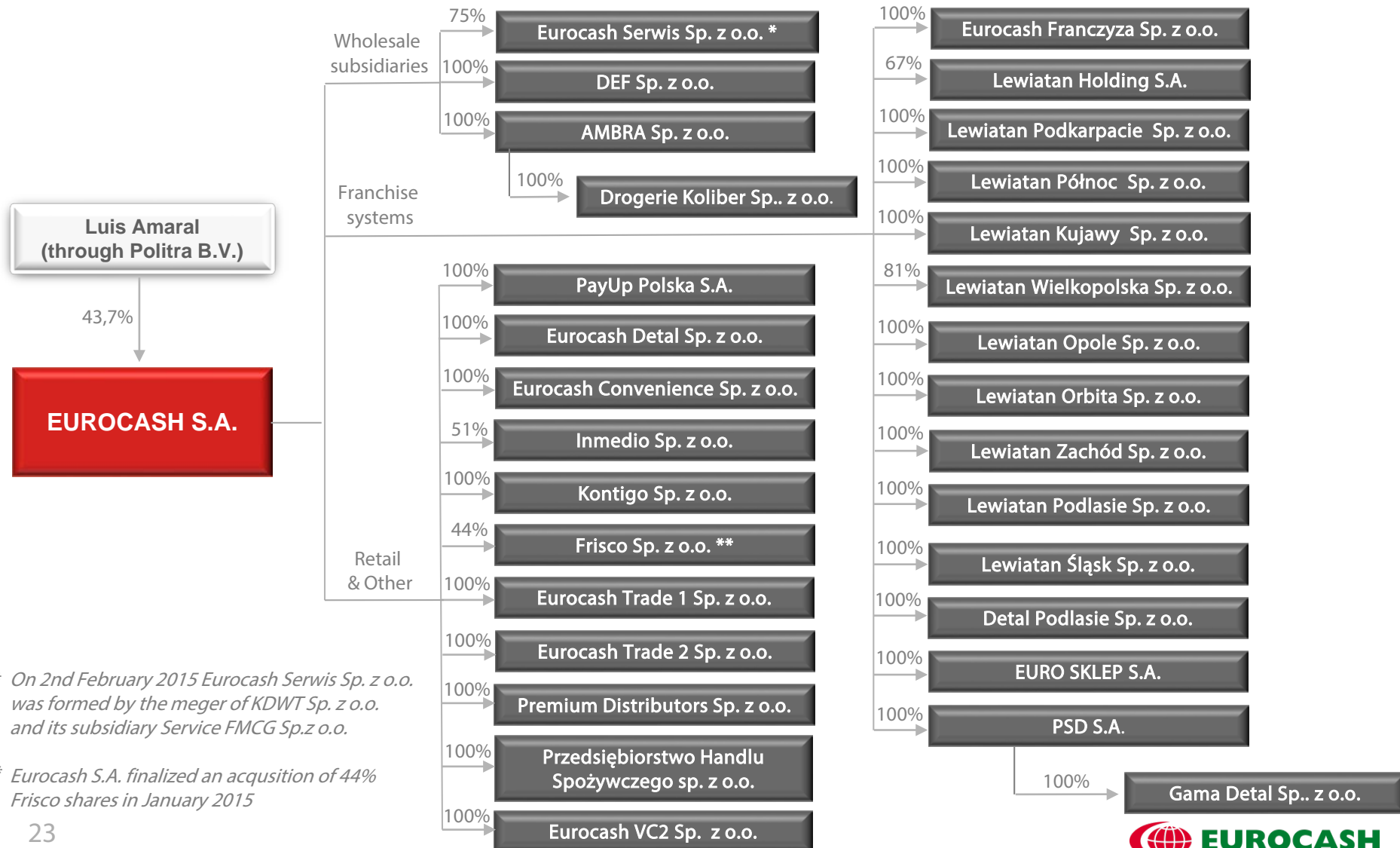
## 2.5. Structure of the Eurocash Capital Group

Luis Amaral is the main shareholder of Eurocash (directly and indirectly through Politra B.V.), with the shareholding of 43,71% as at 31.12.2014. Luis Amaral serves as President of the Management Board. The structure of the Eurocash Group and its affiliated companies is presented on the following chart. Detailed information on the Eurocash Group's organizational structure and a specification of entities under consolidation may be found in Supplementary Information to the consolidated financial statements.

The parent entity in the Group is Eurocash S.A., which performs most of the group's sales. In recent years Eurocash S.A. took over a number of its subsidiaries, which allowed to simplification of the group structure – in particular, in 2014 Eurocash S.A. merged with Tradis Sp. z o.o. and PolCater Holding sp. z o.o – please see p. 6.2 below.

## 2.5. Structure of the Eurocash Capital Group

Chart 8. The structure of the Eurocash Group and its affiliated companies as at December 31, 2014:







Eurocash Group is a leading active distributor of food and drinks to independent retailers in Poland measuring in a sales value. Area of activity of Eurocash Group covers the entire Polish territory.

Eurocash Group identifies some actions that are guided by the idea of Corporate Social Responsibility (CSR). Most of these activities directly or indirectly have influence on realization of Eurocash Group mission and empowering position of small format stores market in Poland.

Below is a breakdown of our stakeholders by groups.

Chart 9. Stakeholders Map of Eurocash Group



Source: Own elaboration

## 3.1. Shareholders

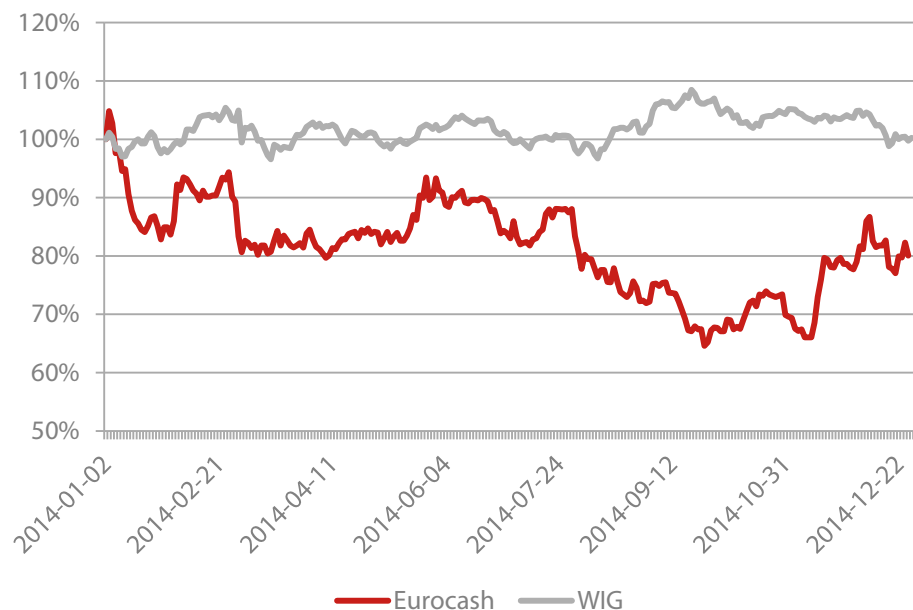
Eurocash Group applying the principle of transparency fulfills the obligations towards the shareholders and investors. The following are the results achieved by the Eurocash Group on the Warsaw Stock Exchange during 2014.

### Eurocash Listing on Warsaw Stock Exchange

Eurocash S.A. debuted on the Warsaw Stock Exchange in May 2005. The shares of the Company are traded on the primary market in a continuous trading system and are a component of the WIG, WIG20, WIG30, WIG-Poland, WIGdiv and MSCI Poland Standard.

At 2014 year end, the price per share was 20% lower against the corresponding period in 2013. 2014 opened with the price per Eurocash share at PLN 47.69 (closing price as at 30 December 2013) and closed with the price per Eurocash share at PLN 38.00. Average share price in 2014 was PLN 38.77.

**Chart 10. Eurocash share price performance vs. WIG Index in 2014**



## 3.1. Shareholders

As at 31 December 2014, company capitalization amounted to PLN 5 269.86m against the value of PLN 6 601.61m noted at the end of 2013. The average number of Eurocash shares traded daily in 2014 was 456 013.

The table below presents the key share quotation data of the Company on the Warsaw Stock Exchange between 2012-2014. In 2014, the total trading volume of Eurocash shares was PLN 113.57 m (81.9% of the Company's share capital). The chart 11 presents monthly trade volume in 2014.

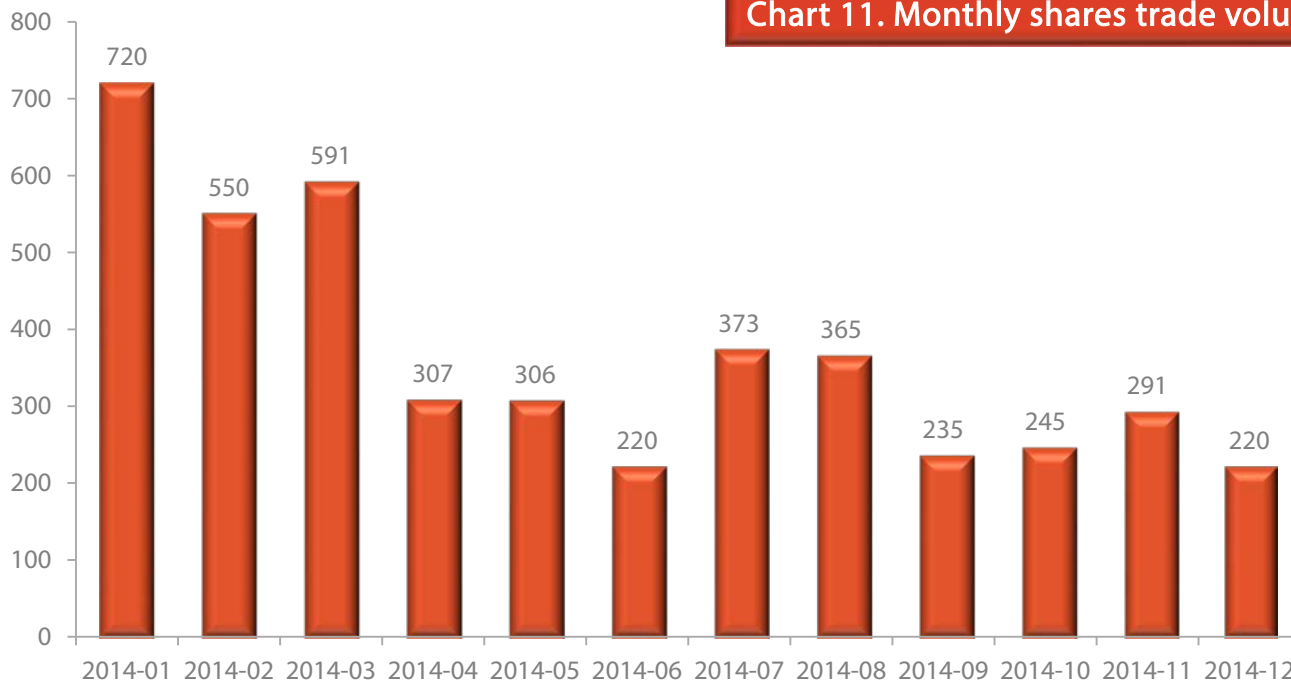
**Table 4. Key share quotation data of the Company on the Warsaw Stock Exchange**

	Unit	2012	2013	2014
Number of shares issued	million	138	138	138
Closing price from the last day of trading in the year	PLN	43,70	47,69	38,00
Market value of the Company at year's end	PLN m	6 030	6 601	5 270
Highest closing price in the year	PLN	47,00	65,64	50,00
Lowest closing price in the year	PLN	28,30	43,00	30,80
Average trading volume per session	'000	214	449	456
Dividend paid in the fiscal year from appropriation of profit for the prior year	PLN/share	0,18	0,90	0,79

## 3.1. Shareholders

The dividend policy of Eurocash bases on sharing profit with shareholders of the Company. Through the last three years the Company was paying the dividend. In the future Eurocash expects the payment of dividend provided it will not affect negatively the future development of the Company.

Chart 11. Monthly shares trade volume in 2014 (PLN m)





## 3.1. Shareholders

Activity of Eurocash S.A. during last three years is characterized by capital market ratios presented below.

**Table 5. Capital market ratios**

		2012	2013	2014
EPS (PLN)	Profit for the period/number of shares	1,81	1,6	1,32
P/E	Price per share/earnings per share	24,08	29,87	28,78
MC/S	Market capitalization/revenues from sales	0,36	0,40	0,31
P/BV	Price per share/book value per share	7,76	7,46	7,22

### Investor Relations

Eurocash S.A. communication with the investors' environment is being executed through mandatory actions i.e. through current and periodical reports, participation in numerous investors' conferences, road shows and meetings with analysts and portfolio managers.

While releasing consolidated periodical financial statements of the Company, teleconferences for analysts and portfolio managers from all over the world are being organized. During these conferences members of the Management Board of Eurocash discuss on released financial results and present the key performances in particular periods.

Other regular instrument in the process of communication with investors is the website of the Company.

## 3.2. Clients

Since Eurocash Group operates distribution of FMCG in all formats of market, Group divided its clients for direct (traditional shops) and final clients (consumers).

### Direct clients

In group of direct customers are included:

- Traditional Shops unaffiliated and associated outside Eurocash
- Franchise stores of Eurocash
- Petrol stations
- Hotels, restaurants, catering (HoReCa sector)

As part of building long-term relationships and strengthen the position of direct customers on the Polish market Eurocash Group applies:

### Honest practices relating to contracts

Franchise Agreements or the sales signed with customers in line are always lawful

### Complaints and Dispute Resolution

Direct Customers have the possibility of submitting complaints to professional Customer Service, responsible for their solution and redirect information to proper department. At the same time, Eurocash Group strive to ensure that delivered products are always fresh and of the highest quality.

### Support

Direct Customers can rely on direct support from experienced staff of Eurocash Group. In particular, Franchisees are provided with the support of experienced Relationship Managers, IT and Sales Representatives who support the daily conduct of business. Customers have a possibility to use created by Eurocash Group marketing strategy and promotional activities including promotional newsletters, thematic catalogs, directories of private label – Dobry Wybór and loyalty programs.

## 3.2. Clients

### *Communication and dialogue*

Customers can communicate with each other and Eurocash Group by a range of communication tools, primarily the Internet: e-platform, internal forums and dedicated web pages. Customers also have the opportunity to contact us by phone, e-mail, and also personally. Regular meetings are organized with the managers of the group.

In order to adjust the strategy to the changing environment Eurocash Group provides marketing researches among customers - primarily satisfaction survey and Mystery Shopper research in franchise stores.

### *Building long-term relationships and loyalty*

Eurocash Group regularly organizes conferences, trade fairs, congresses, as well as training, where customers can familiarize with the newest retail market trends.

### *The abc Stores Congress*

On 14th June 2014 in Warsaw an abc Stores Congress took place. The leitmotif of the Congress was *The 15 years of abc chain. Joint success. Joint future.* More than 2,500 franchisees had appeared on the event.

### *Annual Delikatesy Centrum Franchisees Ball*

In January 2014 Eurocash Group organized Annual Delikatesy Centrum Franchisees Ball. The event last two days, first day was dedicated to workshops from "Retail Outlet Management" including enterprise finance management, marketing and investments and business development. Second day was dedicated to trade fairs and afternoon integration franchisee ball, with 1100 participants (entrepreneurs together with their partners).

## 3.2. Clients

### *Skills Academy Eurocash*

As a partner of independent retail stores Eurocash Group created the Eurocash Skills Academy, which allows retailers to raise qualifications. The Academy combines training, research on their effectiveness and incentive system. The owners and employees of shops have access to expert knowledge and skills at the highest level. For them it is a significant step towards the development and professionalization, which is necessary in today's trading in Poland. The training is conducted by the best experts in the market, open to all franchisees of Eurocash Group. The program has been tailored to the needs of employees, managers and owners of shops. Workshops are offered to, among others, the financial management of retail outlets, team management, pricing policy and promotion, control and quality products to their respective storage and visibility. This project is implemented through the e-learning platforms

### *Business-related contract*

Eurocash Group has negotiated for its direct customers a number of dedicated proposals, which offer an optional supplement of Eurocash Group franchise network. As part of this activity, customers can take advantage from

preferential conditions for the supply of energy, telecommunications, automobiles, lighting and insurance policies. I.e. from the offer of life insurance policies in 2014 benefited more than 6 800 employees of stores belonging to 450 franchisees.

### **Final clients**

Eurocash Group has indirect influence on consumer - Final Clients - all who are buying goods from direct clients in order use and consume (customers). The trying to predict customer's behavior supply to direct client promotional materials, especially promotional newsletters, posters in stores informing about promotions and dedicated websites. A special moment is to open a new store facility - on this occasion are organized numerous attractions for the local community. The most important action dedicated to final customers in 2014 was the biggest in the history of Polish FMCG market lottery "MEGALOTERIA", which took place in almost 10 000 Eurocash franchise shops.

Additionally to ensure the highest quality of daily shopping Eurocash Group regularly provides in franchise outlets the mystery shopper researches and reward stores with the highest consumer service

## 3.3. Employees

Employees are stakeholders with high influence on the strength of the company and its operations. On their work, commitment and approach largely depends the financial result of the Group. A human and intellectual capital are intangible assets of the company. Eurocash at the end of 2014 employs more than 11 300 people to whom identifies following influence areas:

1. Employment and labor relations
2. Health and Safety
3. Social help
4. Development and training in the workplace
5. Motivation and integration

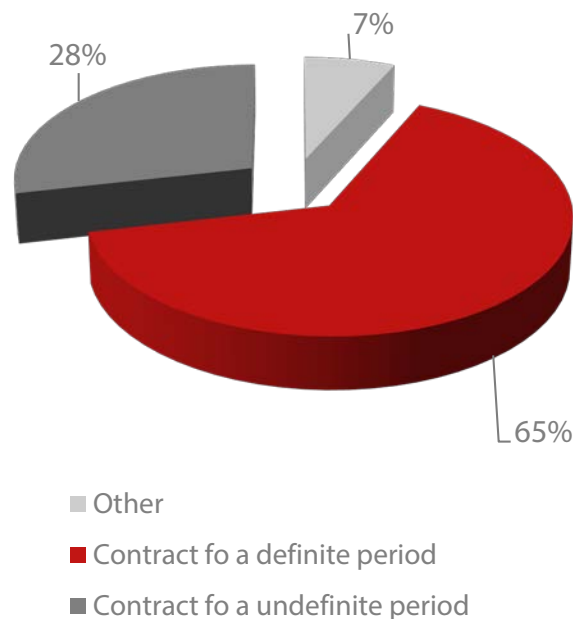
### Employment and labor relations

The vast majority of Eurocash Group employees are employed on a contract of indefinite duration.

The largest group among all employees at the end of 2014 were employees with secondary education. Taking into account the age of employees in the Group, the largest number of employees is in the range of up to 30 years and 31-40 years (both 38%). Not much smaller group consists of

workers aged 31 to 40 years, acting in 38% of all employees. Among employees in 2014 the dominating group in a case of gender were men, 65% of staff of the Group.

**Chart 12. Structure of labor relations concluded by Eurocash and employees in 2014**



## 3.3. Employees

Chart 13. Structure of employment by education in Eurocash Group at 31.12.2014

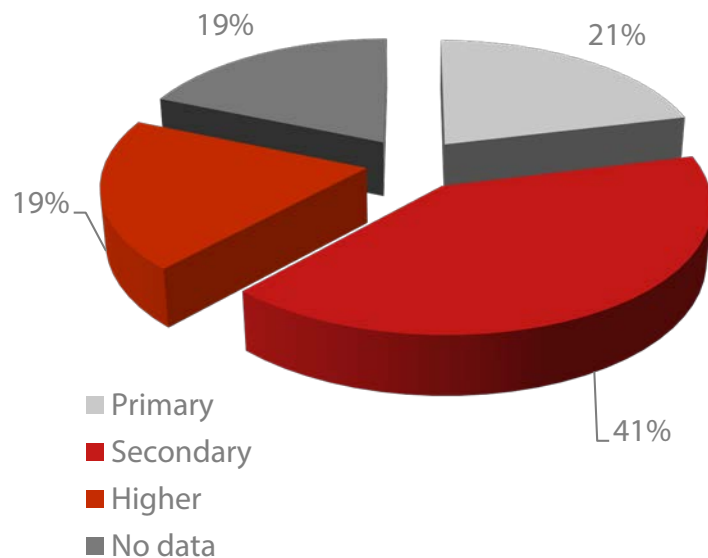
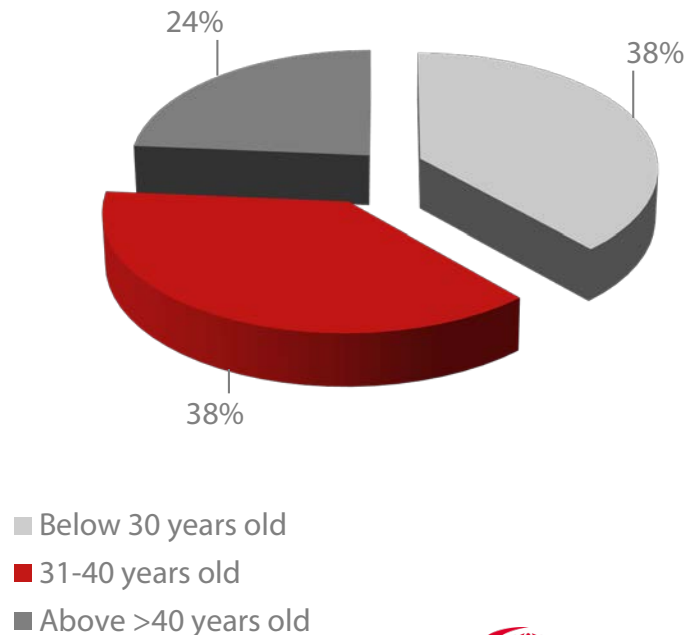


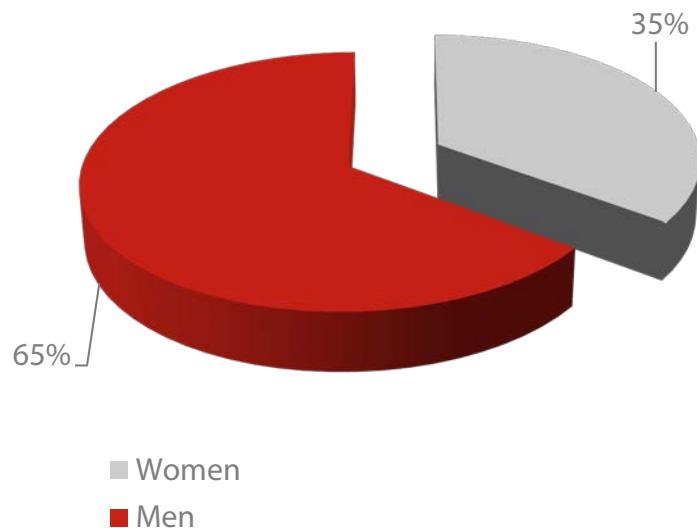
Chart 14. Structure of employment by age in Eurocash Group on 31.12.2014





## 3.3. Employees

Chart 15. Structure of Eurocash Group employment by gender on 31.12.2014



### Health and Safety

In 2014, Eurocash Group promoted the program 'Zero Tolerance for not obeying with health and safety regulations. It is a series of projects designed to emphasize the importance for the Group of health and safety regulations and their respect. .



Under this program, is provide a modified card of control and safety procedures to supervise the health and safety documentation, updated the documentation of occupational health and safety, survey on the state of the individual business units. The next step is the idea of putting in offices colorful, visible ring binders - which in one place are located in the current health and safety documentation. Binder assumed to be placed in a public place and employees may be able to refresh the knowledge of health and safety issues in any time.

## 3.3. Employees

In 2014, also was conducted activities related to developing skills in first aid:

- shows from the provision of first aid for EUROCASH GROUP employees during family picnics,
- FIRST AID TRAININGS with a wide group of staff from different parts of the Poland,
- meeting with the children of employees during EUROCASH 2014 SUMMER CAMPS, promoting the FIRST AID topic
- ICE card.

### Social help

Eurocash Group provides a package of benefits under various social supports for our employees. First of all, it is a subsidy to rest or sanatorium treatment, rehabilitation activities and recreation for children and youth of employees (company organizes summer camps during the summer).

An important element of social activity is non-repayable grant of allowances in the form of cash and purchase of packages for children.

Eurocash Group also provides scholarship programs aimed at supporting talented children of employees of the Group in the acquisition of knowledge and the development of their talents, regardless of the field, which are passionate about. In 2014 52 children were granted.

## 3.3. Employees

### Development and trainings in the workplace

#### Training policy

Concerned about the high level of competences of employees, Eurocash Group supports rising professional qualifications. For this purpose, there are organized numerous trainings both at central level and in the individual business units.

Introducing programs for new employees are provide - initial training of individuals or group allowing to know the nature of the various areas of the company and to become familiar with the professional position. Furthermore, the individual training programs takes into account the specific nature of work in selected business units. Employees also have the opportunity to gain knowledge and information regarding current market trends in the national and international conferences.

In 2014 almost 4000 people have participated in various forms of trainings, 36% in relation to total number of employees.

### Performance management

Implementation of the Eurocash strategy requires the involvement of all employees. Managerial staff and employees of the departments of the central are subject to performance management process (called performance management), on an annual basis. Part of this process includes a '360 degrees' assessment. As part of this evaluation employees receive feedback on their competence not only from superior, but also from their subordinates, internal customers and people in parallel positions. This allows everyone to know the areas in which it can strengthen their competence and thus faster to develop.

### Management Programs

In order to give a chance to the rapid development of talented and ambitious students and graduates, Eurocash Group operates two management programs - Management Trainee and Sales & Operations Trainee. In 2014 to both programs were 20 persons employed (adequately 15 and 5 persons).

## 3.3. Employees

### Dialogue

In order to meet the needs of its employees, the Eurocash Group provides widely understood dialogue with these stakeholders. Channels of communication with employees are:

- Twitter and Facebook.
- Intranet, where most important and latest information related to the life 'inside' company can be found. In Intranet functions also the 'Idea Box' - a place where employees can present their ideas of changes in the company - the best of them will be realized!
- Europress - internal publication about current events in the company, in each issue are also portrayed the employees of individual business units.
- Traditional channel – bulletin boards, posters

Very important channel of communication is the Blue Line - the tool, which allows employees to report violations of law and/or company policy, such as theft, embezzlement, harassment and other unethical behavior. Confidentiality is ensured.

### Motivation and integration

In 2014 Eurocash Group offered to employees such a non-wage methods and tolls of motivation as presented below:

- **Eurocash Group Gift Card** - a modern tool for making Christmas shopping in selected stores belonging to our franchise networks. PLN 2.2m was invested in this activity in 2014\
- **Family picnics** - important element of the holiday meeting of workers and their families. It is held every year in 13 locations throughout the country. In 2014, attended by 21 000 people (employees and their families). Picnics are plenty of attractions for children and adults.
- **Drawing contest** - every year is organized for the children of employees the contest, which gives the opportunity to demonstrate their ideas and authorial interpretation of one of their chosen topics. The best of them are awarded by jury. In 2014 in competition participated above 340 drawings and photographic works.

## 3.3. Employees

- **The tickets lottery** - each month Eurocash raffle off tickets for interesting events in Poland. In 2014 60 raffles were organized in which participated more than 8500 employees.
- **Christmas parties** - every year in Poland are organized a meeting on the occasion of Christmas and New Year's Eve. It is a time to slow down the pace for a moment to the festive atmosphere, thank yourself for a year of hard work, and meet with colleagues from other cities.
- **Private Healthcare** - all employees of the Eurocash Group are able to purchase preferential medical package in one of the companies offering private medical care.
- **Employee benefits**  
Eurocash Group provides a package of benefits under various social support for employees. First of all, it is a subsidy to holiday or sanatorium treatment, rehabilitation activities and recreation for children and youth workers (company organizes camps during the holiday season). Eurocash also supports talented children in sports that require funding for trips to sports camps, which are the key to development of young talent. In 2014 about 477 employee children went on a holiday camps.

### ➤ Incentive Scheme

The Eurocash S.A. company operates a number of incentive programs targeting key members of the management personnel of the Company and the companies included in the Eurocash Group. In 2012, pursuant to resolution No. 3/2012 of the Extraordinary General Meeting Eurocash of 26 November 2012 on the Eighth, Ninth and Tenth and Bonus Incentive Program for Employees of the years 2012, 2013 and 2014 were adopted new incentive programs for the next three years. Under these program, eligible persons will be able to purchase shares of the Company under the terms of the above resolution. A bunch of Eligible Persons will provide managers, executives and individuals essential to the operations of the Company and the Group Eurocash employed and performed their duties in a period of 3 years from 1 January respectively 2013, 2014 or 2015.

In total, these programs include 2.55 million shares in three tranches of 850 thousand shares each. Starting each tranche is conditional on the achievement of specific EBITDA objectives.

## 3.3. Employees

Table 6. Incentive Scheme for 2012-2014

EBITDA goal	Option Exercise Date	Number and Class of Eurocash Shares	Determined Issue Price
PLN 487m in 2012 (goal achieved)	From 1 <sup>st</sup> of February 2015 to 31 <sup>st</sup> of January 2017	850 000 Class M Shares	PLN 38
PLN 565m in 2013 (goal not achieved)	From 1 <sup>st</sup> of February 2016 to 31 <sup>st</sup> of January 2018	850 000 Class N Shares	Not applicable
PLN 638m in 2014 (goal not achieved)	From 1 <sup>st</sup> of February 2017 to 31 <sup>st</sup> of January 2019	850 000 Class O Shares	Not applicable

## 3.4. 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 2014 comprised over 1455 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.

Main suppliers of the Eurocash Group primarily include cigarette producers: Philip Morris, British American Tobacco, Imperial Tobacco, and alcoholic beverages producers, i.e. mainly Kompania Piwowarska, Grupa Żywiec, and the CEDC Group.

Despite significant trading with the above-mentioned suppliers, the Eurocash Group has no suppliers whose share would represent 10% of the Eurocash Group's total procurements.

Concerned about the development of local entrepreneurship, Eurocash Group also supports smaller, local suppliers and producers, helping them to survive in a tough market.





## 3.5. Social commitment

### The local community

As a wholesale and retail distributor of FMCG products Eurocash operates very close to the local community. Often stores are part of the community and take part in its formation. Such a phenomenon occurs especially in smaller towns, where the grocery store is often an information exchange and meeting point.

Being aware of these relationships, Eurocash Group try to positively influence the development of local communities by e.g.: contests for local nursery schools, sports events, music festivals.

### Creating jobs and skills

The Group cooperates with Polish universities, for example: Warsaw School of Economics, Poznań University of Economics, Wrocław University of Economics. Under this cooperation are organized open lectures and workshops conducted by experienced employees of the Group. In addition, during the holiday another year in a row the Group adopted to the work trainees. Students join the head office in Komorniki, Warsaw and Błonie for 2 or 3 months to gain valuable experience and skills. In 2014 in the holiday trainee program participated 22 student. Additionally 35 students participated in trainee programs organized in

cooperation with Poznań University of Economics and financed from resources of European Union.

### The Academy of Entrepreneurship

An innovative project that Eurocash Group proposes on the Polish market is Akademia Przedsiębiorczości (The Academy of Entrepreneurship). This is a unique program on the FMCG market, which suggests a young, enterprising persons to conduct franchise store under the brand name Delikatesy Centrum. Participants acquire the necessary knowledge and experience in running a grocery store before it is opened. According to this came a franchisee of Delikatesy Centrum has facilitated start of own business t and greatly increases a chance of success.

The franchisee is provided with assistance at every stage of setting up and running the shop: a comprehensive marketing support, operational, and further training for owners and employees of shops in the Academy of Eurocash. Delikatesy Centrum franchisee is never alone and can always count on the full support.

In 2014, at the Academy of Entrepreneurship trained were 59 people and opened 49 new Delikatesy Centrum stores.

## 3.6. Environmental protection

### Food Safety Policy based on ISO 22000:2005 standard

The Group implemented and developed Management System compatible with ISO 22000:2005, that guarantees deliveries in line with expectations of clients, basic food safety rules and based on expertise knowledge and experience of employees. Furthermore, to satisfy the highest expectations of its clients Eurocash implemented International Food Standards (IFS) in Distribution Centers in Błonie and Czeladź

### Waste recycling

Eurocash introduced waste recycling system minimizing the negative influence of the Company on the environment. In every Cash&Carry warehouse there is a trash compactor that increase the effectiveness of the floor space in a stockroom and cars transporting trashes. Specialized companies, that weight and recycle trashes, regularly pick waste up from every C&C warehouse. Number of waste, in order for optimization, is being monitored every month. Also glass, scrap metal, printing toner, used electric and electronic devices are being sorted from waste. Moreover in every warehouse there are boxes for batteries that allows clients to get rid of waste in an

environmental friendly way. Number of this kind of waste is being monitored at least once a year.

### Transport optimization and fumes reduction

The Group uses a modern logistic system that allows for a rational usage of transport and limit the influence of lorries on the environment. Eurocash monitors systematically routes and plan them in the most effective way. Lorries transport products to different final places at once, which allows to maximal optimization of loading surface of lorries. The Company uses external transport companies, which because of their scale of operations are able to optimize routes. Lorries are not doing the way back totally empty but the transport company may use their cars to realize orders from other companies. This policy allows to significant reduction of fumes emission. What is more employees of Eurocash with company cars have limits of fuel usage per car assigned. Fleet Management Department is taking care of company cars taking steps in order to reduce fuel emission by identifying and eliminating the problems.

# Eurocash Group development prospects

## 4.1. Eurocash Group Development Strategy



The primary goal of the Group is to ensure the competitiveness of independent retail stores in Poland and to offer added value to the Group's customers as well as to increase the value of the Group for its shareholders. The strategy of the Group is focused on and follows the customer who is the addressee of the Group's offer to enter into a range of cooperation options through specific distribution channel formats:

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

- for small and medium retail stores looking for FMCG product supplies and support in running retail operations whereby an appropriate level of profitability is ensured – Eurocash Dystrybucja and partner programs under brands such as Lewiatan, Euro-Sklep, Groszek, Gama (PSD)
- for retail stores looking for the comprehensive delivery of products - the Delikatesy Centrum franchise network
- for customers looking for specialized deliveries of specific product categories, e.g.:
  - tobacco products and fast moving consumer goods (retail stores, kiosks, etc.) – distribution through Eurocash Serwis (KDWT)
  - alcoholic beverages – distribution of alcoholic beverages through Eurocash Alkohole,
  - restaurant chains, hotel chains, and petrol station chains looking for the comprehensive delivery of specific products as well as high service quality – distribution under Eurocash Gastronomia and Eurocash Dystrybucja

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

Strategic goals of the Eurocash Group are as follows:

- satisfy the needs of the Group's customers across key product groups through a range of distribution formats and forms of cooperation as well as by ensuring that customers receive an expected service quality,
- create a permanent competitive advantage for the Group through scale economies available in wholesale business operations run by the large format business players, and
- further integrate operating systems and regularly optimize costs.

In response to an ongoing consolidation process noted in the market for food products distribution in Poland, including the market for the wholesale distribution of FMCG products in Poland, the strategy of the Eurocash Group also assumes further organic growth across every distribution format as well as the continuation of takeovers of other wholesalers and franchise networks. Transactions

concerning acquisitions of other entities allow to generate 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.

### 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.

#### *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

#### *New business formats*

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

#### *Organic growth*

Management of the Eurocash Group expects that during 2015:

- The number of Eurocash Cash&Carry stores will increase by approximately 8-10 outlets, however, the final number of new openings will depend on the integration with Tradis Distribution Group
- The number of Delikatesy Centrum franchise stores will increase by approximately 150 outlets

### *Integration of business acquired companies*

On 17 November 2014, Eurocash, KDWT and Kolporter finalised the investment agreement of 5 December 2013, pursuant to which Kolporter acquired 25% plus one share in KDWT in exchange for contribution of 100% of shares in Service FMCG sp. z o.o ("Service FMCG"). Results of Service FMCG have been consolidated since 1 December 2014. Due to operational integration in the opinion of the Board of Eurocash, the full synergy effects associated with these transactions will be possible to achieve within three years from the acquisition of control over this company.

On 1 December 2014, pursuant to the preliminary agreement of 10 June 2014, Eurocash acquired 51% of shares in Inmedio Sp. z o.o. The transaction will develop operation of Eurocash Group over convenience segment and allow to create for clients an innovative solution supplementary to current offer.



Financial risks are discussed in Note 38 to the consolidated financial statements for 2014, which constitute a part of the Eurocash Group's annual report for 2014. 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 2014, the traditional distribution channel was a significant form of FMCG retail distribution, representing the share of approx. 44%. 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. 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.

## 4.3. Risks and Threats

### 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 2014 comprised over 1455 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.

## 4.4. 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

# Management discussion of Eurocash Group financial performance for 2014

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



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

Accounting policy used to prepare financial statement was presented in a point 2 of the consolidated financial statement of Eurocash Group for the FY2014 and was applied to all periods presented in the financial statement.

# Management discussion of Eurocash

## Group financial performance for 2014

### 5.2. Eurocash Group: Financial and Operational Highlights

**Table 7. Eurocash Group: Summary of 2014 Financial Performance**

<i>PLN m</i>	2014	2013	Change 2014/2013
Revenues from the sales of products, goods, and materials	16 963,85	16 537,53	2,58%
EBITDA (EBIT + amortization) (EBITDA %)	412,46 2,43%	402,14 2,43%	2,57% 0,00 p.p.
Operating profit - EBIT (Operating margin - EBIT %)	287,17 1,69%	285,69 1,73%	0,52% -0,04 p.p.
Net profit on continued operations	218,81	226,08	-3,21%
(Net profit yield %)	183,12	221,01	-17,14%

Despite of weak market conditions on the food distribution market sales in 2014 amounted to PLN 16 963.85m, and 16 708.66 excluding of Service FMCG and Inmedio (please see current reports 53/2014 and 54/2014), which represents increase by 2.58% and 1.03% comparing with 2013. Sales growth dynamics was also affected by termination of contract with Stokrotka chain in June 2013 (please see current report No 6/2013. Sales to Stokrotka in 2013 amounted to PLN 372m).

Below we present some financial and operational data according to business units:

- **Cash&Carry** – including Eurocash Cash&Carry and Batna stores
- **Delikatesy Centrum** – encompassing sales of Eurocash S.A. to retail stores supplied based on franchise and distribution contracts executed with Eurocash Franczyza Sp. z o.o.
- **Tobacco & Impulse** – sales of KDWT Sp. z o.o. and since 1<sup>st</sup> December 2014 sales of Service FMCG Sp. z o.o. .
- **Alcohol Distribution** – sales of Eurocash S.A. in Eurocash Alkohole format (former Premium Distributors)

# Management discussion of Eurocash Group financial performance for 2014

## 5.2. Eurocash Group: Financial and Operational Highlights

- **Eurocash Food Service** - sales of Eurocash S.A. (and PolCater Holding Sp. z o.o. before merger with Eurocash S.A.) realized to gas stations and HoReCa segment
- **Eurocash Dystrybucja** (former Tradis) consisting of:
  - active distribution companies (Eurocash S.A. after merger with Tradis Sp. z o.o., DEF Sp. z o.o., AMBRA Sp. z o.o.), and
  - companies organizing or supporting franchise chains of retail shops: Detal Koncept Sp. z o.o., Euro Sklep S.A., Partnerski Serwis Detaliczny S.A., Gama Serwis Sp. z o.o., Lewiatan Holding S.A., Lewiatan Podlasie Sp. z o.o., Lewiatan Śląsk Sp. z o.o., Lewiatan Zachód Sp. z o.o., Lewiatan Północ Sp. z o.o., Lewiatan Opole Sp. z o.o., Lewiatan Wielkopolska Sp. z o.o., Lewiatan Podkarpacie Sp. z o.o., Lewiatan Kujawy Sp. z o.o., Lewiatan Orbita Sp. z o.o., Drogerie Koliber Sp. z o.o.
  - Detal Podlasie Sp. z o.o. (company operating retail stores in Lewiatan chain).
- **Other** – sales revenues of companies: Inmedio Sp. z o.o., PayUp Polska S.A., Eurocash Convenience Sp. z o.o., Kontigo Sp. z o.o., Eurocash Franczyza Sp. z o.o., Eurocash Detal Sp. z o.o., Eurocash Trade 1 Sp. z o.o.

**Table 8. Eurocash Group: Sales Mix by Distribution Formats in 2014**

PLN m	External sales		
	2014	2013	%change
Cash&Carry	4 737,33	4 591,21	3,18%
Delikatesy Centrum	1 797,62	1 654,22	8,67%
Eurocash Dystrybucja (Tradis)	4 265,10	4 797,78	-11,10%
Alcohol distribution	2 087,21	1 891,54	10,34%
Tobacco+Impulse	3 291,00	2 946,95	11,67%
Eurocash Food Service	535,98	614,29	-12,75%
Other	249,61	122,82	103,23%
Adjustment	0	-81,28	-100,00%
<b>Total</b>	<b>16 963,85</b>	<b>16 537,53</b>	<b>2,58%</b>

## 5.2. Eurocash Group: Financial and Operational Highlights

### Cash & Carry

- In 2014 external sales of Cash&Carry format amounted to PLN 4 737.33m., the sales growth of 3.18%.
- LFL sales growth (same number of stores) in Eurocash Cash&Carry stores in 2014 reached 0.09% .
- Excluding categories of tobacco and phone cards, the LFL sales growth in Eurocash Cash&Carry stores in 2014 amounted to negative 0.07%.
- The number of Eurocash Cash&Carry stores at the end of 2014 amounted to 168 (including 3 Batna stores).
- The number of abc stores amounted to 6 997 at the end of 2014.
- In 2014 shares

### Delikatesy Centrum

- Wholesale sales realized by "Delikatesy Centrum" Distribution Centers in 2014 amounted to PLN 1 797.62m, 8.67% higher than in 2013.
- LFL growth of wholesale sales realized by Eurocash to "Delikatesy Centrum" franchise stores amounted to negative 2.07% in 2014.
- Number of "Delikatesy Centrum" franchise stores at the end of 2014 amounted to 1003.

### Tobacco&Impulse:

- External sales in KDWT amounted in 2014 to 3 291.00m and increased by 11.67% YoY.
- Growth of sales in food category in 2014 amounted to 6.76% comparing with 2013.
- Effective from 1 December 2014 KDWT consolidated 100% of Service FMCG sp. z o.o. ("Service FMCG ") activities. Service FMCG was contributed to KDWT by Kolporter in exchange of 25% plus one share in KDWT pursuant to investment agreement of 5 December 2013, which was finalized on 17 November 2014.
- Excluding sales of Service FMCG the consolidated sales of KDWT amounted to PLN 2.946.85m, an increase by 4.70%
- On 2 February 2015, Service FMCG and KDWT executed a merger and at the same time KDWT changed the company name into Eurocash Serwis sp. z o.o.

## 5.2. Eurocash Group: Financial and Operational Highlights

### Eurocash Gastronomy

External sales of Eurocash Gastronomia in 2014 amounted to PLN 535.98m, a decrease by 12.75% y/y.

### Alcohol Distribution

Sales of Eurocash Alkohole in 2014 amounted to PLN 2 087.21m, 10.34% higher than in 2013.

Sales of Eurocash Alkohole format increased mainly due to increased level of prices following excise tax increase in 2014 and market share gains.

### Eurocash Dystrybucja (Tradis):

Sales of Eurocash Dystrybucja in 2014 reached PLN 4 265.10m in comparison to PLN 4 797.78m Y/Y (a decrease by 11.1%).

Decrease of sales in 2014 was caused mainly by lower sales to independent clients. During the 2014 sales dynamics was also affected by termination of contract with Stokrotka chain in 2013.

Number of partnership or franchise stores organized by companies belonging to Eurocash Group (Groszek, Euro Sklep, Lewiatan and PSD) amounted to 4 362 stores as of the end of 2014.



## 5.3. Profit and Loss Account

### Sales Revenues

In 2014, consolidated sales revenues earned by the Eurocash Group decreased by 0.43%, disclosing the figure of PLN 16 575.78m. The main reason for the lack of growth in sales growth, despite a large increase in Cash & Carry and Delikatesy Center was the conclusion of a contract with a Stokrotka network of stores and relocation of Tradis cash&carry to Eurocash Cash & Carry.

Eurocash Group consolidated sales in 2014 reached PLN 16 963.85m, EBITDA amounted to PLN 412.46m, and net profit of PLN 183.12m.

Eurocash Group consolidated sales in 2014 increased by 2.58%, driven by consolidation of acquired companies since 1<sup>st</sup> December 2014: Service FMCG and Inmedio (please see current reports 53/2014 and 54/2014) and organic growth of sales in Eurocash Group. Negative impact on sales dynamic had a termination of contract with Stokrotka chain in June 2013 (please see current report No 6/2013. Sales to Stokrotka in 2013 amounted to PLN 372m) and deepening in second half of year deflation of food and non-alcoholic beverages.

Eurocash Group improved its profitability on sales by 0.56 p.p. at the level of 10.68%. It was mainly attributable to effects of restructure and integration process in Eurocash Dystrybucja and realization of normalized level of annual bonuses at the Group level in 2014.

EBITDA was PLN 412.46m compared with 402.14 previous year (an increase by 2.57%). Growth of EBITDA came from improvement in gross margin accompanied by reduction of costs and consolidation of Service FMCG and Inmedio.

Consolidated net profit for the 2014 came in at PLN 193.12m, compared with PLN 221.01m previous year. and was similar to the same period previous year. Such a result was attributable to increased level of working capital financing (2.1x Net Debt /EBITDA) and higher effective tax rate. In 2014 average effective tax rate amounted to 16%, comparing with 2% in 2013 following to recognition of deferred tax asset.

### Profitability Analysis

## 5.3. Profit and Loss Account

Table 9. Eurocash Group: Financial Performance for 2014

<i>PLN m</i>	2014	2013	Change %
Revenues from sales of goods, services, and materials	16 963,85	16 537,53	2,58%
Gross profit (loss) on sales	1 812,28	1 673,73	8,28%
Gross profitability on sales (%)	10,68%	10,12%	0,56 p.p.
EBITDA (EBIT + amortization) ( <i>EBITDA margin %</i> )	412,46 2,43%	402,14 2,43%	2,57% 0,00 p.p.
EBIT Operating profit ( <i>EBIT operating margin %</i> )	287,17 1,69%	285,69 1,73%	0,52% -0,03 p.p.
Gross profit	218,81	226,08	-3,21%
Net Income ( <i>Net profitability %</i> )	183,12 1,08%	221,01 1,34%	-17,14% -0,26 p.p.

# Management discussion of Eurocash Group financial performance for 2014

## 5.4. Balance Sheet Data

### Balance Sheet Mix

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

**Table 10. Mix of Assets**

	mIn PLN	31.12.2014	%	31.12.2013	%
Non-current assets (long-term)		<b>2 245,72</b>	<b>41,81%</b>	<b>2 015,51</b>	<b>41,77%</b>
Goodwill		1 192,37	53,10%	1 055,53	52,37%
Intangible assets		375,55	16,72%	393,57	19,53%
Property, plant and equipment		550,43	24,51%	417,75	20,73%
Investment real property		1,25	0,06%	1,28	0,06%
Investments in equity accounted investees		-	0,00%	36,17	1,79%
Other long-term investments		0,53	0,02%	1,58	0,08%
Long-term receivables		2,81	0,13%	5,93	0,29%
Long-term prepayments		119,53	5,47%	103,70	5,15%
Current assets (short-term)		<b>3 125,19</b>	<b>58,19%</b>	<b>2 810,05</b>	<b>58,23%</b>
Inventories		1 286,11	41,15%	1 017,82	36,22%
Trade receivables		1 524,37	48,78%	1 416,52	50,41%
Current tax receivables		23,10	0,74%	12,05	0,43%
Other short-term receivables		185,26	5,93%	213,55	7,60%
Other short-term financial assets		-	0,00%	3,04	0,00%
Short-term prepayments		19,43	0,62%	17,30	0,62%
Cash and cash equivalents		86,91	2,78%	102,52	3,65%
Fixed assets classified as held for sale		-	0,00%	27,25	2,68%
<b>Total assets</b>		<b>5 370,91</b>	<b>100,00%</b>	<b>4 825,56</b>	<b>100,00%</b>

# Management discussion of Eurocash Group financial performance for 2014

## 5.4. Balance Sheet Data

**Table 11. Mix of Liabilities**

	mIn PLN	31.12.2014	%	31.12.2013	%
<b>Long term liabilities</b>		<b>1 034.12</b>	<b>18.77%</b>	<b>884.36</b>	<b>18.33%</b>
Treasury shares		138.68	13.84%	138.43	15.65%
Reserve capital		457.95	45.71%	440.20	49.78%
Hedging reserve		(14.18)	-1.42%	(4.65)	-0.53%
Retained earnings		419.38	41.86%	310.38	35.10%
<b>Non-current liabilities</b>		<b>247.99</b>	<b>0.00%</b>	<b>295.29</b>	<b>7.49%</b>
Long-term loans and borrowings		-	<b>5.72%</b>	85.98	29.12%
Long-term financial liabilities		162.61	65.57%	154.93	52.47%
Other long-term liabilities		2.41	0.97%	0.25	0.09%
Deferred tax liabilities		79.47	32.05%	51.03	17.28%
Employee benefits		3.24	1.31%	3.10	1.05%
Provisions		0.26	0.10%	-	0.00%
<b>Current liabilities</b>		<b>4 088.79</b>	<b>94.28%</b>	<b>3 645.92</b>	<b>92.51%</b>
Loans and borrowings		694.59	16.99%	411.70	11.29%
Short-term financial liabilities		82.02	2.01%	27.56	0.76%
Trade payables		3 063.03	74.91%	2 889.70	79.26%
Current tax liabilities		3.52	0.09%	19.94	0.55%
Other short-term payables		93.35	2.28%	160.49	4.40%
Current employee benefits		62.58	0.09%	52.44	1.44%
Provisions		89.70	2.19%	84.09	2.31%
<b>Liabilities</b>		<b>4 336.79</b>	<b>81.23%</b>	<b>3 941.20</b>	<b>81.67%</b>
<b>Total equity and liabilities</b>		<b>5 370.91</b>	<b>100.00%</b>	<b>4 825.56</b>	<b>100.00%</b>
<b>Long term liabilities</b>		<b>1 034.12</b>	<b>18.77%</b>	<b>884.36</b>	<b>18.33%</b>
Treasury shares		138.68	13.84%	138.43	15.65%
Reserve capital		457.95	45.71%	440.20	49.78%

## 5.4. Balance Sheet Data

### Loan Agreements, Warranties and Collaterals

#### *Loan agreements*

Information on credit agreements concluded by the Group Eurocash are presented in Note 22 to the consolidated financial statements for 2014.

#### *Loans granted*

In 2014, Eurocash Group Companies did not grant any loans in the total value equivalent to 10% of the issuer's equity.

#### *Sureties and guarantees*

Sureties and guaranties issued by the Eurocash Group companies are presented in note no. 34 to the consolidated financial statements for 2014.

### Issue of Securities and Bonds in 2014

#### *Issue of shares*

In 2014, 253,000 shares were issued in connection with the ordinary exercise of share options that were granted to key employees under incentive schemes.

#### *Issue of securities and bonds*

At the end of 2014 Eurocash had issued bonds with a total nominal value of PLN 42 million under the Commercial Paper Program to the amount of PLN 500 million.

In 2014 Eurocash SA has not issued, acquired or repaid other debt securities.

Information on incentive schemes based on the issue of Eurocash shares is provided in section 6.3.

## 5.5. Key Off-balance Sheet Items

Information on key off-balance sheet items for the Eurocash Group is provided in supplementary information to the annual consolidated financial statements, i.e. note no. 35 and 36.

## 5.6. Eurocash Group Cash Flow Analysis

### Cashflow Statement

Accumulated cash flows in 2014 amounted to negative PLN -15.61m, while accumulated cash flows from operating activity have been lower than previous year by PLN 296.27m. Lower cash flow from working capital was attributable to increase of inventory level in 2014 and decrease of LFL sales in business units with negative working capital.

### Working capital rotation

The cash conversion cycle in 2014 was -13.32 days, compared to -17.24 days in 2013. Main drivers of longer operational cycle were higher turnover of inventories and receivables, partially off-set with extended turnover of liabilities. Higher turnover of inventories and receivables was caused mainly by consolidation of Service FMCG.

**Table 12. Eurocash: Cashflows for 2014**

<i>PLN m</i>	2014	2013
Operating cashflows	245,69	541,96
<i>Gross profit</i>	218,81	226,08
<i>Depreciation</i>	125,29	116,46
<i>Change in working capital</i>	-127,99	222,75
<i>Other</i>	29,58	-23,33
Cashflows from investments	-230,13	-152,05
Cashflows from financing activities	-31,16	-444,77
<b>Total cashflows</b>	<b>-15,61</b>	<b>-54,86</b>

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

Turnover in days	2014	2013
1. Inventories turnover	27,67	22,46
2. Trade receivables turnover	32,80	31,26
3. Trade liabilities turnover	73,79	70,96
<b>4. Operating cycle (1+2)</b>	<b>60,47</b>	<b>53,73</b>
<b>5. Cash conversion (4-3)</b>	<b>-13,32</b>	<b>-17,24</b>

## 5.6. Eurocash Group Cash Flow Analysis

### Evaluation of Funds Management

The Eurocash Group generates positive cash flows from operations. All key investments carried out in 2014 were financed from own funds and credit facilities taken up.

The main base of liquidity management in Eurocash Group is internal model of forecasting cash flows. Eurocash uses two lines of credit to hedge the liquidity needs of the Group. Eurocash Group 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 Group companies to pay their liabilities. Key financial risk factors related to Eurocash Group operations are as follows:

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

Analysis of these risk factors is presented in Note 36 in the part of the report which contains consolidated financial statements.



### 5.7. Investment Activity

#### Major investments Completed in 2014

In 2014, the highest share in capital expenditures was noted for the merger transactions – acquisition of shares in PayUp and Inmedio.

Other investment expenditures was driven by investments in distribution centers of the Eurocash Group, investments in Cash&Carry stores, the development of Delikatesy Centrum franchise network, as well as investments in hardware and software solutions due to migration of Tradis IT systems.

**Table 14. Key Investment Directions for Eurocash Group in 2014**

	<i>PLN m</i>	2014	2013
Capital investment (including acquisition of shares and stock)		37.87	30.62
Independent clients		130.72	109.66
Active Distribution		11.84	16.16
Integrated clients		45.79	16.53
Others		2.17	0.01
Exclusions (cash in companies under acquisition)		0.00	0
<b>Total investment outlays</b>		<b>228.39</b>	<b>172.98</b>

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

Key investments planned for 2015 are related to:

- Organic growth within the current structure of business units, and in particular:
- Launch of 8-10 new Eurocash Discount Cash&Carry stores
- Development of Delikatesy Centrum franchise chain including plans to introduce 150 new franchise stores into Delikatesy Centrum network.
- Replacement investment

In order to finance the aforementioned investments, the Eurocash Group intends to use funds generated by the Group. If a decision is made that other significant investments should be undertaken, in the opinion of the Eurocash Management Board, the Eurocash Group has adequate credit repayment capacity to secure financing for such prospective investments.

## 5.8. Key Contributors to 2014 Financial Performance of Eurocash Group

### Equity Changes

In the period between 1 January 2014 and 31 December 2014, 253,000 shares were issued as a result of exercising share option programs.

### Dividend Payment

According to the resolution No. 5 dated 29 April 2014, the Ordinary General Meeting of Eurocash S.A. decided that the net profit for 2013 amounting to PLN 90,921,242 (ninety million nine hundred twenty one thousand two hundred forty and two zlotys) shall be distributed in such way, that shareholders of record on May 16. 2014, shall be eligible to receive the dividend in amount PLN 0.79 (seventy nine groszes) per one Company's share; the dividend shall be payable by June 2. 2014.

2014 did not see any significant events or factors which would have impact on the financial performance of the Eurocash Group noted in the period.

## Additional information

### 6.1. Information on Court Proceedings



In 2014, the Eurocash Group companies were not involved in any legal proceedings before court, a relevant arbitration authority, or a public administration body, the total value of which would represent at least 10% of issuer's equity.

## Additional information

### 6.2. Information on Significant Agreements

In 2014, the Eurocash Group companies entered into the following agreements considered significant for the Group's business operations:

#### **Merger of Eurocash S.A. and Tradis Sp. z o.o.**

On 4 April 2014, the District Court Poznań - Nowe Miasto i Wilda, VIII Commercial Division National Court Register, entered the Company's merger with Tradis sp. z o.o. with its registered office in Lublin ("Tradis"). The merger was effected pursuant to Art. 492, § 1. 1 Commercial Code ("CCC") by Tradis acquisition by the Company, i.e. by transferring all Tradis assets as an acquired company to the Company as the acquiring company.

#### **Acquisition of PayUp Polska S.A.**

On 6 May 2014, in execution of the preliminary agreement of 11 February 2014, Eurocash concluded with Alverca BV ("Alverca") with its registered office in Amsterdam, a sales agreement under which Eurocash acquired from Alverca 51% of the shares PayUp Poland S.A. As a result of this transaction Eurocash holds 100% of shares PayUp Polska S.A. PayUp Polska S.A. distributes electronic financial services through a network of approximately 4.9 thousand terminals located in stores across the country, offering among other things, mobile phones recharge cards,

accounts payments and acceptance of payment cards.

#### **The conclusion of the franchise agreement with HDS Polska sp. z o.o. and Relay Duo sp. z o.o.**

On June 10th 2014 subsidiary of Eurocash - Eurocash Convenience sp. z o.o. („ECC”) executed with HDS Polska and Relay Duo sp. z o.o. a master-franchise agreement, based on which ECC will be entitled to use the “1minute” brand in order to develop in Poland a chain of convenience stores under 1minute brand, according to the store concept developed by HDS and currently used in over 70 retail stores operated under “1minute” brand. HDS Polska is a part of the Lagardere Services group. In Poland it operates app. 740 retail outlets.

Apart of information provided in this report there are no other material factors which might influence the results of the Eurocash Group during the next quarter of the year.

#### **Merger of Eurocash S.A. and PolCater Holding Sp. z o.o.**

On 4 April 2014, the District Court Poznań - Nowe Miasto i Wilda, VIII Commercial Division National Court Register, entered the Company's merger with PolCater Holding Sp. z o.o.

### Acquisition of Service FMCG (Kolporter FMCG)

On 17 November 2014, Eurocash, KDWT and Kolporter finalized the investment agreement of 5 December 2013, pursuant to which Kolporter acquired 25% plus one share in KDWT in exchange for contribution of 100% of shares in Service FMCG sp. z o.o0 ("Service FMCG"). Results of Service FMCG have been consolidated since 1 December 2014.

### Acquisition of Inmedio sp. z o.o. shares

On June 10th 2014 Eurocash executed with Lagardere Services S.A. with seat in Paris („LS”) and HDS Polska sp. o.o. with seat in Warsaw („HDS Polska”) a preliminary share purchase agreement, based on which Eurocash will purchase 51% of shares in the company which will operate retail chain under Inmedio brand in Poland. After completion of the transaction, Eurocash control the company operating chain of over 410 Inmedio retail outlets. On December 1<sup>st</sup> 2014 the acquisition was executed.

### Acquisition of Frisco.pl shares

On December 1<sup>st</sup> 2014 Eurocash executed the following:

- an investment agreement with Helix Venture Partners FIZ, based in Warsaw, MCI.PrivateVentures FIZ, acting on the account of sub-fund MCI.TechVentures 1.0. and FRISCO S.A., based in Warsaw ("FRISCO"), pursuant to which Eurocash will acquire newly-issued shares in FRISCO;
- a conditional agreement with Hiranya Holdings Limited, based in Larnaca, Cyprus ("Hiranya"), regarding the purchase of existing shares in FRISCO.

Following registration of an increase in FRISCO's share capital and purchase of shares from Hiranya, Eurocash hold shares representing 44.13% of FRISCO's share capital and entitling to 44.13% of votes at FRISCO's general meeting.

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

#### *Subrogation agreement with DNB Bank Polska S.A*

On 14 November 2014 it executed a subrogation agreement with DNB Bank Polska S.A., based in Warsaw, (the "Bank") (the "Factoring Agreement"). The Parties to the agreement also include the Issuer's subsidiaries – KDWT Sp. z o.o., based in Komorniki, Eurocash Franczyza Sp. z o.o., based in Komorniki, Eurocash Trade 1 Sp. z o.o., based in Komorniki, and DEF Sp. z o.o., based in Białystok (the "Subsidiaries"). The object of the Factoring Agreement is the issue of a PLN 100 000 000.00 (in words: one hundred million Polish zloty) credit facility to the Issuer and the Subsidiaries, pursuant to which the Bank will acquire certain receivables from the Issuer and the Subsidiaries by way of subrogation. The credit product is available from 31 October 2015. Under the Factoring Agreement, in order to secure the Bank's receivables from the Subsidiaries, the Issuer has provided the Bank with a PLN 120 000 000.00 (in words: one hundred twenty million Polish zloty) surety for the Subsidiaries' liabilities. The surety is valid until 29 July 2016. The fee for the surety is based on market terms.

#### *Subrogation agreement with Bank Pekao S.A.*

On 19 December 2014 it executed an overdraft facility agreement with Bank Pekao S.A., based in Warsaw (the "Bank") (the "Agreement"). The subject of the Agreement is a PLN 200 000 000.00 (in words: two hundred million zlotys) revolving overdraft facility, to be used as financing for the Borrower's day-to-day operations. The facility has been issued on market terms and is available until 18 June 2015. In connection with having executed the Agreement, a subsidiary of the Issuer - KDWT Sp. z o.o., based in Komorniki, has issued a surety for the Issuer's future liabilities towards the Bank for an amount of up to PLN 240 000 000.00 (in words: two hundred forty million zlotys). The surety has been issued until 19 June 2018. Fees for the issued surety were determined on market terms.

In the 2014 companies belonging to Eurocash Group did not execute other transactions with related parties otherwise than in the ordinary course of business on an arm's length basis.

## 6.4. Information on Transactions with Connected Entities

In the 2014 companies belonging to Eurocash Group did not execute other transactions with related parties otherwise than in the ordinary course of business on an arm's length basis.

## 6.5. Forecasts Publication

The Management Board of Eurocash S.A. did not publish financial forecasts for 2014 and 2015.

## 6.6. Changes in Key Management Principles

2014 saw no changes in key management principles.

## 6.7. 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) one share in Eurocash (Politra B.V.), the notice period in respect of the agreement shall be 12 months.

## 6.8. Information on Registered Audit Company

The consolidated financial statements of Eurocash Group for 2014 were audited by KPMG Audyt Sp. z o.o. on the basis of a contract concluded on 17 June 2014. The consolidated financial statements of Eurocash Group for 2013 were audited by KPMG Audyt Sp. z o.o. on the basis of a contract concluded on 10 July 2013.

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 15. Capital expenditures for audit and review of financial statements**

<i>PLN thousands</i>	2014	2013
Audit of financial statements	400,0	400,0
Review of financial statements	200,0	150,0
Other services	85,0	35,0
<i>Total capital expenditures</i>	685,0	585,0



## 7.1. 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", which constitutes an attachment to Resolution No. 12/1170/2007 of the Stock Exchange Council dated 4 July 2007 (amended by way of Resolution No. 17/1249/2010 of the Stock Exchange Council dated 19 May 2010 (hereinafter referred to as "Good Practices"), available on the following website [www.corp-gov.gpw.pl](http://www.corp-gov.gpw.pl).

In the fiscal year ended 31 December 2014, the Issuer observed all corporate governance rules set forth in the collection of Good Practices as well as no permanent or temporary breach of any of the corporate were fully implemented in Company operations.

# Statement on corporate governance rules

## 7.2. Shareholders structure

Shareholders with Direct or Indirect Substantial Shareholding in Eurocash

As at 31 December 2014 the structure of shareholders holding directly or indirectly large blocks of shares in Eurocash S.A. was as below.

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

	31.12.2014				31.12.2013			
Shareholder	Number of shares	Share in share capital (%)	Number of votes	Share in total number of votes (%)	Number of shares	Share in share capital (%)	Number of votes	Share in total number of votes (%)
Luis Amaral (directly and indirectly by Politra B.V. S.a.r.l)	60 615 240	43,7	60 615 240	43,7	60 615 240	43,8	60 615 240	43,8
Funds managed by Cartica Management	6 994 140	5,0	6 994 140	5,0	b.d.	b.d.	b.d.	b.d.
Funds managed by Coronation Assets Management (Pty) Limited	6 929 097	5,0	6 929 097	5,0	b.d.	b.d.	b.d.	b.d.
Others	64 142 159	46,2	64 142 159	46,2	77 812 396	56,2	77 812 396	56,2
<b>Total</b>	<b>138 680 636</b>	<b>100</b>	<b>138 680 636</b>	<b>100</b>	<b>138 427 636</b>	<b>100</b>	<b>138 427 636</b>	<b>100</b>

# Statement on corporate governance rules

## 7.2. Shareholders structure

### 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 December 2014 was as follows:

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

	Eurocash shareholding		Share subscription rights	
<i>Management Board</i>	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Luis Amaral (directly and indirectly by Politra B.V. S.a.r.l.)	60 615 240	60 615 240	0	0
Rui Amaral	347 025	347 025	50 000	0
Katarzyna Kopaczewska	337 000	337 000	25 000	0
Arnaldo Guerreiro	300 500	300 500	25 000	0
Pedro Martinho	843 050	843 050	35 000	0
Carlos Saraiva	0	0	15 000	0
Jacek Owczarek	53 500	38 500	25 000	15 000

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

	Eurocash shareholding		Share subscription rights	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
João Borges de Assuncao	0	0	0	0
Eduardo Aguinaga de Moraes	0	0	0	0
Francisco José Valente Hipólito dos Santos	0	0	0	0
Hans Joachim Körber	0	0	0	0
Jacek Szwajcowski	0	0	0	0
João Borges de Assuncao	0	0	0	0
Eduardo Aguinaga de Moraes	0	0	0	0

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

No securities which would grant special control rights neither preferential shares 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., 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.

# Statement on corporate governance rules

## 7.3. The parent's governing bodies

### Management Board

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

**Table 19. The composition of the Management Board in 2014**

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

The Company's management body is the Management Board. The Management Board of the Parent is composed of seven members. The composition of the Management Board in the period January 1<sup>st</sup> – December 31<sup>st</sup> 2014.

On 25<sup>th</sup> February 2015 the Supervisory Board adopted a resolution that Mr. David Bonner is appointed as Member of the Management Board. Mr. David Bonner is responsible for Eurocash Cash&Carry Eurocash Alkohole business units.

### 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.

## 7.3. The parent's governing bodies

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:

- 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
- define the Company's financial goals
- implement and follow through the long- and medium-term development strategy as well as the main Company's operating objectives and financial goals
- analyze major investment projects and related methods of funding
- 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

- establish the Company's organizational structure
- approve the annual and/or long-term Company's budget
- determine an internal division of duties and responsibilities for Management Board Members
- set down Rules and other internal regulations of the Company unless the provisions of law or Articles of Association provide otherwise
- 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
- request that the Supervisory Board submit an appraisal of draft resolutions which are to be presented to Shareholders at the Shareholders' Meeting
- any other actions which go beyond the ordinary management of the Company

## 7.3. The parent's governing bodies

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

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

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

<http://eurocash.pl/pub/eng/uploaddocs/lad-korporacyjny-zalaczniki/regulamin-zarzadu-2008-ang.3166178158.pdf>

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

Information on remuneration paid to the members of the Management Board in 2014 is provided in the section of the annual report which contains the annual consolidated financial statements, in note n. 32.

### 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. (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> was as presented in the table below.



## 7.3. The parent's governing bodies

**Table 20. The composition of the Supervisory Board in 2014**

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

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

- Mr. Jacek Szwajcowski and Hans Joachim Körber as Supervisory Board members, appointed by the Company's General Shareholders' Meeting, and
- Mr. João Borges de Assunção, Eduardo Aguinaga de Moraes and Francisco José Valente Hipólito dos Santos, appointed by Politra B.V., which submitted representations which meet criteria of an independent Supervisory Board member.

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

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

### Powers of the Supervisory Board

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

- review and assessment of the Management Board's report on the Company's activities and the Company's financial statements for their consistency with accounting books and documentation, as well as the actual state of affairs
- assessment of the Management Board's recommendations concerning distribution of profit or loss cover
- submitting to the General Shareholders' Meeting an annual written report on the results of the assessment referred to above
- appointing and recalling, as well as suspending Members of the Management Board for an important reason

## 7.3. The parent's governing bodies

- issuing opinions on planned amendments to the Company's Articles of Association
  - approving annual budgets drafted by the Management Board and amendments to such budgets no later than by 30 November of each calendar year
  - issuing opinions on granting loans or financial assistance as well as concluding agreements with any Member of the Management Board which fall outside an ordinary course of business
  - electing an expert auditor to examine the Company's financial statements
  - adopting a uniform text of the Articles of Association
  - other matters which require a resolution of the Supervisory Board under binding legal regulations or other provisions of the Articles of Association
- The following actions of the Management Board shall require the Supervisory Board's consent issued in the form of a resolution:
- decisions concerning joint-ventures with other entities
  - decisions concerning mergers with other entities as well as acquisitions of other entities or enterprises
  - incurring any liability in excess of PLN 100,000,000 and the encumbrance on the Company's assets with a value in excess of PLN 150,000,000 if such transactions have not been provided for in the annual budget
  - sale or lease or transfer of the Company's assets with the value in excess of EUR 1,000,000 or its zloty equivalent if such a transaction has not been provided for in the annual budget
  - issuing opinions concerning the determination and changes in remuneration levels or terms of employment of Management Board Members
  - raising, issue, taking up or disposal of shares in another subsidiary entity
  - development and modification of any stock option scheme or an incentive scheme of a similar nature for the Company's management and employees
  - the conclusion of a material agreement by the Company with a related entity as interpreted by the regulations concerning the submission of current and periodical information by issuers whose shares are quoted on the Stock Exchange in Warsaw S.A. except for standard transactions concluded on market terms as part of company operations entered into by the Company with its subsidiary entity in which the Company is a majority shareholder

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

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

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

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

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

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

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

## 7.3. The parent's governing bodies

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

Information on remuneration paid to the members of the Supervisory Board in 2014 is provided in the section of the annual report which contains the annual consolidated financial statements, in note n. 32.

**Supervisory Board Committees**

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

- the Audit Committee, and
- the Remunerations Committee

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

Responsibilities of the Audit Committee include as follows:

- supervising the submission of financial information by the Company in the periodical reports, forecasts, etc
- supervising the activities of external auditors of the Company
- giving the opinion on the candidates for the Company's external auditors to be elected by the Supervisory Board, where external auditors should be changed at least once every 7 years
- supervising the relationship with the external auditor, including in particular assessing the external auditor's independence, remuneration and any non-auditing work for the Company, as well as determining the involvement of the external auditor with respect to the content and publication of financial reporting
- each year, evaluating the internal control system in place and the significant risk management system in place, as well as self-evaluation in a form of an annual report of its deliberations, findings, and relationships with the external auditor (in particular, including his/her independence) to be included as part of the Supervisory Board's annual report to be presented at the Ordinary General Meeting of Shareholders.

## 7.3. The parent's governing bodies

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

Responsibilities of the Remunerations Committee include as follows:

- 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
- 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
- ensuring the disclosure to the Supervisory Board of the remuneration of the Management Board resulting from an implementation of the remuneration policy
- each year, submitting a self-assessment in the form of an annual report of its performance to be included as part of the Supervisory Board's annual report and to be

presented at the Ordinary General Meeting of Shareholders.

The Remunerations Committee is composed of the following members: Messrs. Francisco José Valente Hipólito dos Santos (Chairman), Eduardo Aguinaga de Moraes and Hans Joachim Körber.

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

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

### General Shareholders' Meeting

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

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

## 7.3. The parent's governing bodies

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 raised in the course of the Meeting. A chartered auditor should attend the Annual Ordinary General Meeting of Shareholders as well as the Extraordinary General Meeting of Shareholders if financial matters of the Company are discussed. Members of the Supervisory Board, the Management Board and the chartered auditor should offer explanations and supply information related to the Company within their discretion and to the extent necessary for the resolution of matters discussed in the Meeting.

The General Meeting may be attended by members of the

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

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

- review and approval of the Management Board Report on the operations of the Company and financial statements for the previous financial year, and granting approval to members of the Company's governing bodies for the performance of their duties
- decisions concerning claims to remedy damage inflicted at the time of the Company's establishment or in connection to its management by the Management Board
- sale or lease of the enterprise or an organized part thereof as well as the creation of limited property rights therein
- creation of the Company's capitals and funds and their allocation

## 7.3. The parent's governing bodies

- approval of the Company's long-term strategic plans
- adopting resolutions on the distribution of profit and loss cover
- amending the Articles of Association
- increasing and decreasing the Company's share capital
- dissolution or liquidation of the Company
- authorization for the Company to enter into a standby or firm commitment underwriting agreements
- appointment or dismissal of two members of the Supervisory Board
- setting down the rules for and levels of remuneration of members of the Supervisory Board
- adopting the Rules of the Supervisory Board
- dismissal or suspension of members of the Management Board
- adopting the Rules of the General Meeting
- 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

**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.



### **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 8.3 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 8.3 of the Report.

### **Information on Employee Shares Control System**

Incentive schemes based on the issue of Eurocash S.A. shareholding are specified below.



# Statement on corporate governance rules

## 7.3. The parent's governing bodies

No.	Legal Basis	Number and Class of Eurocash Shares	Determined or Projected* Issue Price	Option Exercise Date
1	Resolution No. 18 of the Ordinary Shareholders' Meeting of Eurocash S.A. dated 28 June 2007 regarding the Fourth and Fifth Incentive and Bonus Scheme for Employees for years 2007 and 2008	Up to 1,020,000 Class G Shares	PLN 9.78 (issue price published in current report No. 71/2011)	from 1 January 2012 to 31 December 2013
		Up to 1,020,000 Class H Shares	PLN 8.89 (issue price published in current report No. 51/2012)	from 1 January 2013 to 31 December 2014
2.	Resolution No. 16 of the Ordinary Shareholders' Meeting of Eurocash S.A. dated 2 June 2010 regarding the Seventh Incentive and Bonus Scheme for Employees	Up to 197.500 Class I Shares	PLN 25,13 ( issue price published in current report No. 44/2013)	from 1 January 2014 to 31 December 2014
3.	Resolution No. 3 of the Extraordinary Shareholders' Meeting of Eurocash S.A. dated 26 November 2012 regarding the Eighth, Ninth and Tenth Incentive and Bonus Scheme for Employees	850.000 Class M Shares	PLN 38	from 1 February 2015 to 31 January 2017
		850.000 Class N Shares	Goal not achieved	Not applicable
		850.000 Class O Shares	Goal not achieved	Not applicable

### Forecasted Costs Connected with Incentive Schemes Introduced

Costs connected with employee incentive schemes based on the issue of Eurocash S.A. (the "Company") shares are calculated by the Company throughout the rights acquisition period and depreciated monthly. The fair value of options is established on the basis of the Black-Scholes-Merton model.

According to the model, the value of options is calculated in line with the following parameters:

- **Grant date:** For incentive schemes based on the issue of M shares, the start of the option exercise period was set as the grant date whereas the date of adopting the resolution of the General Assembly which approved the list of entities entitled to take up shares.
- **Option exercise date:** For all schemes the start of the option exercise period was assumed as the option exercise date.
- **Risk-free rate:** This value is estimated based on the average field of Treasury Bonds with the tenor closest to the option strike date as at the valuation date.
- **Volatility:** Calculated based on historical volatility of daily returns of Eurocash shares on the Warsaw Stock Exchange (WSE), taking into account 250 trading sessions prior to the valuation date.

- **Option strike price:** In accordance with the principles of programs based on the shares of Series M exercise price of the options are PLN 38.00.
- **Base (current) stock price:** It is the Eurocash share price at the close of the trading session on WSE as at the valuation date.

In 2014, the cost related to the valuation of incentive schemes amounted to PLN 12,162,513.00 while in 2013 the amount was PLN 7,090,345.00.

### Key Features of Internal Control and Risk Management Systems Applied by the Company in Drafting Financial Statements

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

## 7.3. The parent's governing bodies

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

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

The Financial Department of the Controlling Entity headed by the Financial Director is in charge of drafting consolidated financial statements and periodical reports of the Group. Financial data which is the basis for consolidated financial statements and periodical reports

are sourced from monthly financial and management reporting applied by the Group's member companies. After each calendar month is closed for accounting purposes, middle and top management jointly analyzes the companies' financial performance against relevant budget assumptions.

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

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

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

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

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, 2012 no

weaknesses existed which could have a material adverse effect on the effectiveness of internal controls as far as financial reporting is concerned.

# Representations of the management board

## 8.1. Accuracy and Reliability of Reports Presented



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

- the consolidated annual financial statements for the Eurocash S.A. capital group and comparative data were drawn up in accordance with the applicable accounting principles and give, diligent, and transparent view of the economic and financial position of the Eurocash Group and of its financial performance for 2014
- the report of the Management Board on business operations of Eurocash Group in 2014 contains a true view of the development, achievements, and the position of Eurocash Group, including the discussion of main risks and threats.

**8.2. Appointment of Entity Qualified to Audit Financial Statements**

The members of the Management Board of Eurocash S.A. represent that KPMG Audyt Sp. z o.o., 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

Position	Name and surname	Date	Signature
President	Luis Amaral	27 <sup>th</sup> March 2015 r.	
Management Board Member Chief Executive Officer	Rui Amaral	27 <sup>th</sup> March 2015 r.	
Management Board Member	Arnaldo Guerreiro	27 <sup>th</sup> March 2015 r.	
Management Board Member	Pedro Martinho	27 <sup>th</sup> March 2015 r.	
Management Board Member Human Resources Director	Katarzyna Kopaczewska	27 <sup>th</sup> March 2015 r.	
Management Board Member	Carlos Saraiva	27 <sup>th</sup> March 2015 r.	
Management Board Member Financial Director	Jacek Owczarek	27 <sup>th</sup> March 2015 r.	
Management Board Member	David Boner	27 <sup>th</sup> March 2015 r.	



part B



# **Selected consolidated FINANCIAL DATA**

## SELECTED CONSOLIDATED FINANCIAL DATA

	for the period from 01.01.2014 to 31.12.2014 PLN	for the period from 01.01.2013 to 31.12.2013 PLN	for the period from 01.01.2014 to 31.12.2014 EUR	for the period from 01.01.2013 to 31.12.2013 EUR
Sales	16 963 845 302	16 537 532 494	4 053 293 821	3 939 852 887
Operating profit (loss)	287 171 527	285 685 590	68 615 963	68 060 891
Profit (loss) before income tax	218 813 959	226 077 879	52 282 796	53 860 126
Profit (loss) for the on continued operations	183 120 130	221 009 478	43 754 212	52 652 645
Profit (loss) for the period	183 120 130	221 009 478	43 754 212	52 652 645
Net cash from operating activities	245 687 039	541 960 584	58 703 775	129 115 089
Net cash used in investing activities Net	(230 134 029)	(152 052 309)	(54 987 582)	(36 224 493)
cash used in financing activities Net change	(31 158 544)	(444 771 049)	(7 444 935)	(105 960 941)
in cash and cash equivalents	(15 605 535)	(54 862 774)	(3 728 743)	(13 070 345)
Weighted average number of shares Weighted	138 528 195	138 188 296	138 528 195	138 188 296
average diluted number of shares EPS (in PLN /	138 620 708	138 721 946	138 620 708	138 721 946
EUR)	1,30	1,60	0,31	0,38
Diluted EPS (in PLN / EUR)	1,30	1,59	0,31	0,38
Average PLN / EUR rate*			4,1852	4,1975
	as at 31.12.2014 PLN	as at 31.12.2013 PLN	as at 31.12.2014 EUR	as at 31.12.2013 EUR
Assets	5 370 906 776	4 825 560 156	1 260 095 905	1 163 570 640
Non-current liabilities	247 994 071	295 287 524	58 183 157	71 201 660
Current liabilities	4 088 794 319	3 645 916 689	959 292 945	879 127 288
Equity	1 034 118 386	884 355 944	242 619 803	213 241 692
Share capital	138 680 636	138 427 636	32 536 573	33 378 577
Number of shares	138 680 636	138 427 636	138 680 636	138 427 636
Diluted number of shares	139 554 136	139 577 136	139 554 136	139 577 136
Book value per share (in PLN / EUR) Diluted	7,22	6,39	1,69	1,54
book value per share (in PLN / EUR)	7,18	6,34	1,68	1,53
Declared or paid dividend (in PLN / EUR) *** Declared	109 451 447	124 465 442	25 678 964	30 011 922
or paid dividend per share (in PLN / EUR)	0,79	0,90	0,19	0,22
PLN / EUR rate at the end of the period**			4,2623	4,1472

\* Profit and loss items and cash flow items calculated on basis at a weighted average rate announced by the National Bank of Poland for 2014.

\*\* 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 paid for 2013 year until 02 June 2014 for persons who were shareholders of the Parent Company on 16 May 2014.

part C



# AUDITOR'S OPINION

**Eurocash S.A. Group**

**Opinion and Report  
of the Independent Auditor  
Financial Year ended  
31 December 2014**

The opinion contains 2 pages  
The supplementary report contains 13 pages  
Opinion of the independent auditor  
and supplementary report on the audit  
of the consolidated financial statements  
for the financial year ended  
31 December 2014

*This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.*

## **OPINION OF THE INDEPENDENT AUDITOR**

*To the General Meeting of Eurocash S.A.*

### **Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of the Group, whose parent entity is Eurocash S.A. with its registered office in Komorniki, 11 Wiśniowa Street ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information.

### *Management's and Supervisory Board's Responsibility for the Consolidated Financial Statements*

Management of the Parent Entity is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations and preparation of the report on the Group's activities. Management of the Parent Entity is also responsible for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act dated 29 September 1994 (Official Journal from 2013, item 330 with amendments) ("the Accounting Act"), Management of the Parent Entity and members of the Supervisory Board are required to ensure that the consolidated financial statements and the report on the Group's activities are in compliance with the requirements set forth in the Accounting Act.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with section 7 of the Accounting Act, National Standards on Auditing issued by the National Council of Certified Auditors and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the Parent Entity, as well as evaluating the overall presentation of the consolidated financial statements.

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

### *Opinion*

In our opinion, the accompanying consolidated financial statements of Eurocash S.A. Group have been prepared and present fairly, in all material respects, the financial position of the Group as at 31 December 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, and are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the Group.

### **Specific Comments on Other Legal and Regulatory Requirements**

#### *Report on the Group's Activities*

As required under the Accounting Act, we report that the accompanying report on the Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2014, item 133) and the information is consistent with the consolidated financial statements.

On behalf of KPMG Audyt Sp. z o.o.  
Registration No. 458  
ul. Chłodna 51  
00-867 Warsaw

#### *Signed on the Polish original*

.....  
Wojciech Drzymała  
Key Certified Auditor  
Registration No. 90095  
Director

27 march 2015

part D

# AUDITOR'S REPORT



**Eurocash S.A. Group**

**Supplementary report  
on the audit of the  
consolidated financial  
statements**

**Financial Year ended  
31 December 2014**

The supplementary report contains 13 pages  
The supplementary report on the audit of the  
consolidated financial statements  
for the financial year ended  
31 December 2014



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## **1. General**

### **1.1.1. Identification of the Group**

### **1.1.2. Name of the Group**

Eurocash S.A. Group

### **1.1.3. Registered office of the Parent Company of the Group**

### **1.1.4. Registration of the Parent Company in the register of entrepreneurs of the National Court Register**

Registration court:	District Court Poznań – Nowe Miasto u Wilda in Poznaniu, VIII Commercial Department of the National Court Register
Date:	20 July 2014
Registration number:	KRS 0000213765
Share capital as at the end of reporting period:	138,680,636.00 PLN

### **1.1.4. Management of the Parent Company**

The Management Board is responsible for management of the Parent Company.

As at 31 December 2014, the Management Board of the Parent Company was comprised 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,    |
| • Carlos Saraiva                  | – Member of the Management Board,    |
| • Katarzyna Kopaczewska           | – Member of the Management Board,    |
| • Jacek Owczarek                  | – Member of the Management Board,    |

According to the Supervisory Board's resolution dated 25 February 2015, Mr. David Boner was appointed to the position of Member of the Management Board.

## **1.2. Information about companies comprising the Group**

### **1.2.1. Companies included in the consolidated financial statements**

As at 31 December 2014, the following companies were consolidated by the Group:

Parent Company:

- Eurocash S.A.

Subsidiaries consolidated on the full consolidation basis:

- Ambra Sp. z o.o.,
- Drogerie Koliber Sp. z o.o.,
- DEF Sp. z o.o.,
- Detal Podlasie Sp. z o.o.,
- Eurocash Convenience Sp. o.o.,
- Eurocash Detal Sp. z o.o.,
- Eurocash Franczyza Sp. z o.o.,
- Eurocash Trade 1 Sp. z o.o.,
- Eurocash Trade 2 Sp. z o.o.,
- Eurocash VC2 Sp. z o.o.,
- Euro Sklep S.A.,
- Gama Detal Sp. z o.o.,
- Inmedio Sp. z o.o.,
- KDWT Sp. z o.o.,
- Kontigo Sp. z o.o.,
- Lewiatan Holding S.A.,
- Lewiatan Kujawy Sp. z o.o.,
- Lewiatan Opole Sp. z o.o.,
- Lewiatan Orbita Sp. z o.o.,
- Lewiatan Północ Sp. z o.o.,
- Lewiatan Podkarpacie Sp. z o.o.,
- Lewiatan Podlasie Sp. z o.o.,

- Lewiatan Śląsk Sp. z o.o.,
- Lewiatan Wielkopolska Sp. z o.o.,
- Lewiatan Zachód Sp. z o.o.,
- Przedsiębiorstwo Handlu Spożywczego Sp. z o.o.,
- Partnerski Serwis Detaliczny S.A.,
- PayUp Polska S.A.,
- Premium Distributors Sp. z o.o.,
- Serwis FMCG Sp. z o.o.

The following subsidiaries were consolidated for the first time during the year ended 31 December 2014, as a result of the Parent Company acquiring a controlling interest:

- Eurocash Convenience Sp. z o.o. – subject to consolidation for the period from 5 March 2014 to 31 December 2014,
- Eurocash VC1 Sp. z o.o. – subject to consolidation for the period from 17 April to 31 December 2014,
- Inmedio Sp. z o.o. – subject to consolidation for the period from 1 to 31 December 2014,
- Serwis FMCG Sp. z o.o. – subject to consolidation for the period from 17 November to 31 December 2014
- PayUp Polska S.A. – until 5 May 2014 subject to consolidation on the equity method basis, for the period from 6 May to 31 December 2014 subject to consolidation on the full consolidation basis.

### **1.3. Key Certified Auditor and Audit Firm Information**

#### **1.3.1. Key Certified Auditor information**

Name and surname: Wojciech Drzymała  
Registration number: 90095

#### **1.3.2. Audit Firm information**

Name: KPMG Audyt Sp. z o.o.  
Address of registered office: ul. Chłodna 51, 00-867 Warsaw  
Registration number: KRS 0000104753  
Registration court: District Court for the Capital City of Warsaw in Warsaw,  
XII Commercial Department of the National Court Register  
Share capital: PLN 125,000  
NIP number: 526-10-24-841

KPMG Audyt Sp. z o.o. is entered in the register of audit firms, maintained by the National Council of Certified Auditors, under number 458.

## **1.4. Prior period consolidated financial statements**

The consolidated financial statements as at and for the financial year ended 31 December 2013 were audited by KPMG Audyt Sp. z o.o. and received an unmodified opinion.

The consolidated financial statements were approved at the General Meeting on 29 April 2014.

The consolidated financial statements were submitted to the Registry Court on 12 May 2014.

## **1.5. Audit scope and responsibilities**

This report was prepared for the General Meeting of Eurocash S.A. with its registered office in Komorniki, 11 Wiśniowa Street and relates to the consolidated financial statements comprising: the consolidated statement of financial position as at 31 December 2014, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information.

The consolidated financial statements were audited in accordance with the contract dated 17 June 2014, and the resolution of the Supervisory Board on the appointment of the auditor.

We conducted the audit in accordance with section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 2013, item 330 with amendments) ("the Accounting Act"), National Standards on Auditing issued by the National Council of Certified Auditors, and International Standards on Auditing.

We audited the consolidated financial statements at the Group entities during the period from 24 November to 5 December 2014 and from 26 January to 17 February 2015.

Management of the Parent Company is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations and preparation of the report on the Group's activities.

Our responsibility is to express an opinion and to prepare a supplementary report on the audit of the financial statements.

The Management Board of the Parent Company submitted a statement, dated as at the same date as this report, as to the true and fair presentation of the accompanying consolidated financial statements, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the consolidated financial statements.

All required statements, explanations and information were provided to us by Management of the Group and all our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

The scope of the work planned and performed has not been limited in any way. The method and scope of our audit is detailed in working papers prepared by us and retained in the offices of the Audit Firm.

The Key Certified Auditor and the Audit Firm fulfill the independence requirements as described in Art. 56 points 3 and 4 of the Act on Certified Auditors and their Self-Governance, Audit Firms authorized to Audit Financial Statements and Public Oversight dated 7 May 2009 (Official Journal from 2009 No. 77, item 649 with amendments).

## **1.6. Information on audits of the financial statements of the consolidated companies**

### **1.6.1. Parent Company**

The separate financial statements of the Parent Company for the year ended 31 December 2014 were audited by KPMG Audyt Spółka z o.o., certified auditor number 458, and received an unmodified opinion.

## 1.6.2. Other consolidated entities

Entity's name	Authorised auditor	Financial year end	Type of auditor's opinion
Ambra Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp. k	31 December 2014	*
DEF Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp. k	31 December 2014	*
Detal Podlasie Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp. k	31 December 2014	*
Drogerie Koliber Sp. z o.o.	audit not required	31 December 2014	not applicable
Eurocash Convenience Sp. o.o.	audit not required	31 December 2014	not applicable
Eurocash Detal Sp. z o.o.	audit not required	31 December 2014	not applicable
Eurocash Franczyza Sp. z o.o.	KPMG Audyt Sp. z o.o.	31 December 2014	*
Eurocash Trade 1 Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp. k	31 December 2014	*
Eurocash Trade 2 Sp. z o.o.	audit not required	31 December 2014	nie dotyczy
Eurocash VC2 Sp. z o.o.	KPMG Audyt Sp. z o.o.	31 October 2014	*
Euro Sklep S.A.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp. k	31 December 2014	*
Gama Detal Sp. z o.o.	audit not required	31 December 2014	not applicable
Imedio Sp. z o.o.	Ernst&Young Audyt Polska spółka z ograniczoną odpowiedzialnością Sp. k.	31 December 2014	*
KDWT Sp. z o.o.	KPMG Audyt Sp. z o.o.	31 December 2014	*
Kontigo Sp. z o.o.	audit not required	31 December 2014	not applicable
Lewiatan Holding S.A.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp. k	31 December 2014	*
Lewiatan Kujawy Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp. k	31 December 2014	*
Lewiatan Opole Sp. z o.o.	audit not required	31 December 2014	not applicable
Lewiatan Orbita Sp. z o.o.	audit not required	31 December 2014	not applicable
Lewiatan Podkarpacie Sp. z o.o.	audit not required	31 December 2014	not applicable
Lewiatan Podlasie Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp. k	31 December 2014	*
Lewiatan Północ Sp. z o.o.	audit not required	31 December 2014	not applicable
Lewiatan Śląsk Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp. k	31 December 2014	*
Lewiatan Wielkopolska Sp. z o.o.	audit not required	31 December 2014	not applicable
Lewiatan Zachód Sp. z o.o.	audit not required	31 December 2014	not applicable
Przedsiębiorstwo Handlu Spożywczego Sp. z o.o.	audit not required	31 December 2014	not applicable
Partnerski Serwis Detaliczny S.A.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp. k	31 December 2014	*
PlayUp Polska S.A.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp. k	30 November 2014	*
Premium Distributors Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp. k	31 December 2014	*
Serwis FMCG Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp. k	31 December 2014	*

\*Procedures for the purposes audit of the consolidated financial statements of Eurocash SA Group were performed however until the date of this report the audit of the statutory financial statement has not been completed

## 2. Financial analysis of the Group

### 2.1. Summary analysis of the consolidated financial statements

#### 2.1.1. Consolidated statement of financial position

ASSETS	31.12.2014 PLN '000	% of total	31.12.2013 PLN '000	% of total
<b>Non-current assets (long-term)</b>	<b>2 245 715,1</b>	<b>41,8</b>	<b>2 015 513,1</b>	<b>41,8</b>
Goodwill	1 192 366,3	22,2	1 055 533,4	21,9
Intangible assets	375 549,2	7,0	393 574,8	8,2
Property, plant and equipment	550 433,1		417 745,4	
Investment property	1 248,9	0,0	1 283,4	0,0
Investments in equity accounted investees	-	-	36 167,5	0,7
Other long-term financial assets	531,6	0,0	1 575,5	0,0
Long-term receivables	2 811,1	0,1	5 931,2	0,1
Deferred tax assets	118 823,7		103 324,8	
Other long-term prepayments	3 951,2	0,1	377,1	0,0
<b>Current assets</b>	<b>3 125 191,7</b>	<b>58,2</b>	<b>2 810 047,0</b>	<b>58,2</b>
Inventories	1 286 112,0	23,9	1 017 822,1	21,1
Trade receivables	1 524 373,8	28,4	1 416 521,3	29,4
Current tax assets	23 097,7	0,4	12 048,2	0,2
Other receivables	185 262,0	3,4	213 546,4	4,4
Other short-term financial assets	-	-	3 042,4	0,1
Short-term prepayments	19 433,0	0,0	17 302,4	0,0
Cash and cash equivalents	86 913,2	0,0	102 518,7	0,0
Non-current assets of disposal group held for sale	-	-	27 245,5	0,6
<b>TOTAL ASSETS</b>	<b>5 370 906,8</b>	<b>100,0</b>	<b>4 825 560,1</b>	<b>100,0</b>
EQUITY AND LIABILITIES	31.12.2014 PLN '000	% of total	31.12.2013 PLN '000	% of total
<b>Equity</b>	<b>1 034 118,4</b>	<b>19,3</b>	<b>884 355,9</b>	<b>18,3</b>
<b>Equity attributable to owners of the parent entity</b>	<b>1 001 825,3</b>	<b>18,7</b>	<b>884 355,9</b>	<b>18,3</b>
Share capital	138 680,6	2,6	138 427,6	2,9
Reserve Capital	457 945,2	8,5	440 197,9	9,1
Hedging reserve	(14 182,3)	0,3	(4 645,0)	0,1
Retained earnings	419 381,8	7,8	310 375,4	6,4
Accumulated profit from previous years	238 844,2	4,4	89 365,9	1,9
Profit for the period	180 537,6	3,4	221 009,5	4,6
<b>Non-controlling interest</b>	<b>32 293,1</b>	<b>0,6</b>	<b>-</b>	<b>-</b>
<b>Liabilities</b>	<b>4 336 788,4</b>	<b>80,7</b>	<b>3 941 204,2</b>	<b>81,7</b>
<b>Non-current liabilities</b>	<b>247 994,1</b>	<b>4,6</b>	<b>295 287,5</b>	<b>6,1</b>
Long-term loans and borrowings	-	-	85 978,9	1,8
Long-term financial liabilities	162 608,0	3,0	154 927,7	3,2
Other long-term liabilities	2 414,9	0,0	251,0	0,0
Deferred tax liabilities	79 470,8	1,5	51 032,1	1,1
Employee benefits	3 242,9	0,1	3 097,8	0,1
Long-term provisions	257,5	0,0	-	-
<b>Current liabilities</b>	<b>4 088 794,3</b>	<b>76,1</b>	<b>3 645 916,7</b>	<b>75,6</b>
Loans and borrowings	694 594,0	12,9	411 697,9	8,5
Short-term financial liabilities	82 024,5	1,5	27 562,1	0,6
Trade payables	3 063 030,2	57,0	2 889 702,7	59,9
Current tax liabilities	3 521,2	0,1	19 939,4	0,4
Other short-term payables	93 346,1	1,7	160 489,5	3,3
Current employee benefits	62 581,1	1,2	52 436,0	1,1
Provisions	89 697,2	1,7	84 089,1	1,7
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>5 370 906,8</b>	<b>100,0</b>	<b>4 825 560,1</b>	<b>100,0</b>



## 2.1.2. Consolidated income statement

	1.01.2014 - 31.12.2014 PLN '000	% of total sales	1.01.2013 - 31.12.2013 PLN '000 Restated*	% of total sales
<b>CONTINUING OPERATIONS</b>				
<b>Revenue</b>	<b>16 963 845,3</b>	<b>100,0</b>	<b>16 537 532,5</b>	<b>100,0</b>
Sales of goods	16 011 121,9	94,4	15 693 502,9	94,9
Sales of services	948 519,6	5,6	840 950,1	5,1
Sales of materials	4 203,8	0,0	3 079,5	0,0
<b>Cost of sales</b>	<b>(15 151 561,6)</b>	<b>89,3</b>	<b>(14 863 798,5)</b>	<b>89,9</b>
Cost of goods sold	(15 027 144,2)	(88,6)	(14 734 876,3)	(89,1)
Cost of service sold	(120 824,7)	(0,7)	(126 186,7)	(0,8)
Cost of materials sold	(3 592,7)	(0,0)	(2 735,5)	(0,0)
<b>Gross profit on sales</b>	<b>1 812 283,7</b>	<b>10,7</b>	<b>1 673 734,0</b>	<b>10,1</b>
Distribution expenses	(1 204 697,2)	7,1	(1 104 393,4)	6,7
General and administrative expenses	(287 126,5)	1,7	(287 609,9)	1,7
<b>Profit on sales</b>	<b>320 460,0</b>	<b>0,0</b>	<b>281 730,7</b>	<b>0,0</b>
Other operating income	57 987,3	0,3	79 514,6	0,5
Other operating expenses	(91 275,8)	0,5	(75 559,7)	0,5
<b>Operating profit</b>	<b>287 171,5</b>	<b>1,7</b>	<b>285 685,6</b>	<b>1,7</b>
Finance income	17 764,2	0,1	12 287,5	0,1
Finance costs	(85 791,2)	0,5	(71 303,8)	0,4
Share of loss of equity accounted investees	(330,5)	(0,0)	(591,4)	(0,0)
<b>Profit before tax</b>	<b>218 814,0</b>	<b>1,3</b>	<b>226 077,9</b>	<b>1,4</b>
Income tax expense	(35 693,9)	0,2	(5 068,4)	0,0
<b>Net profit for the period</b>	<b>183 120,1</b>	<b>1,1</b>	<b>221 009,5</b>	<b>1,3</b>
<b>Profit attributable to the owners of the Parent entity</b>	<b>180 537,6</b>		<b>221 009,5</b>	
Weighted average number of shares	138 528,2		138 188,3	
Weighted diluted average number of shares	138 620,7		138 721,9	
- basic	1,30		1,60	
- diluted	1,30		1,59	

\*Restatement of comparative data was presented in Note 1 of notes to the consolidated financial statements.

## 2.1.3 Consolidated statement of comprehensive income

	1.01.2014 - 31.12.2014 PLN '000	% of profit	1.01.2013 - 31.12.2013 PLN '000	% of profit
<b>Profit for the period</b>	<b>183 120,1</b>	<b>100,0</b>	<b>221 009,5</b>	<b>100,0</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
<b>Other comprehensive income for the period</b>	<b>(9 537,3)</b>	<b>5,2</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income for the period</b>	<b>173 582,8</b>	<b>94,8</b>	<b>221 009,5</b>	<b>100,0</b>
<b>Total comprehensive income attributable to:</b>				
Owners of the Company	171 000,2	-	221 009,5	-
Non-controlling interest	2 582,6	-	-	-

## 2.2. Selected financial ratios

	2014	2013	2012
<b>1. Return on sales</b>			
<u>profit for the period x 100%</u> revenue	1,1%	1,3%	1,5%
<b>2. Return on equity</b>			
<u>profit for the period x 100%</u> equity - profit for the period	21,5%	33,3%	47,5%
<b>3. Debtors' days</b>			
<u>average trade receivables (gross) x 365 days</u> revenue	33 days	33 days	32 days
<b>4. Debt ratio</b>			
<u>liabilities x 100%</u> equity and liabilities	80,7%	81,7%	83,4%
<b>5. Current ratio</b>			
<u>current assets</u> current liabilities	0,8	0,8	0,8

- Revenue includes revenue from sales of finished products, merchandise and raw materials.
- Average trade receivables represent the average of trade receivables at the beginning and at the end of the period, with no deduction made for allowances.

### **3. Detailed report**

#### **3.1. Accounting principles**

The Parent Company maintains current documentation describing the accounting principles applied by the Group and adopted by the Management Board of the Parent Company.

The accounting principles are described in the notes to the consolidated financial statements to the extent required by International Financial Reporting Standards as adopted by the European Union.

In view of the fact that not all entities being part of the Group apply common accounting principles consistent with the accounting principles applied by the Parent Company, appropriate adjustments to the financial statements of those entities were made to ensure consistency with the accounting principles applied by the Parent Company.

The financial statements of the entities included in the consolidated financial statements were prepared at the end of the same reporting period as the financial statements of the Parent Company.

#### **3.2. Basis of preparation of the consolidated financial statements**

The consolidated financial statements of the Eurocash S.A. Group were prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations.

The consolidated financial statements were prepared on the basis of the consolidation documentation prepared in accordance with the requirements the Decree of the Ministry of Finance dated 25 September 2009 on principles for the preparation of consolidated financial statements of a capital group by companies other than banks and insurance companies (Official Journal from 2009 No. 169, item 1327).

#### **3.3. Method of consolidation**

The method of consolidation is described in note 2.4 of the notes to the consolidated financial statements.

#### **3.4. Goodwill arising on consolidation**

The method of calculating goodwill arising on consolidation is described in note 2.4 of the notes to the consolidated financial statements.

#### **3.5. Consolidation of equity and calculation of non-controlling interest**

The share capital of the Group is equal to the share capital of the Parent Company.

Other equity items of the Group are determined by adding the equity balances of subsidiaries included in the consolidated financial statements in the proportion reflecting the Parent Company's share in the subsidiaries' equity as at the end of the reporting period to the corresponding positions of the equity of the Parent Company.

Only equity of subsidiaries arising after the Parent Company obtained control of the subsidiary is included in the equity of the Group.

Non-controlling interests in subsidiaries included in the consolidated financial statements were determined based on the non-controlling interests' share in the subsidiaries' equity as at the end of the reporting period.

### **3.6. Consolidation eliminations**

Intercompany balances within the Group were eliminated on consolidation.

Sales between entities and other intercompany operating revenues and expenses and financial revenues and expenses were eliminated on consolidation.

The consolidation eliminations were based on the accounting records of Eurocash S.A. (or subsidiary entities) and agreed with information received from the subsidiaries.

### **3.7. Notes to the consolidated financial statements**

All information included in the notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory information, is, in all material respects, presented correctly and completely. This information should be read in conjunction with the consolidated financial statements.

### **3.8. Report of the Management Board of the Parent Company on the Group's activities**

The report of the Management Board of the Parent Company on the Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2014, item 133) and the information is consistent with the consolidated financial statements.

On behalf of KPMG Audyt Sp. z o.o.  
Registration No. 458  
ul. Chłodna 51  
00-867 Warsaw

*Signed on the Polish original*

.....  
Wojciech Drzymała  
Key Certified Auditor  
Registration No. 90095  
Director

27 March 2015

part E

# Consolidated FINANCIAL STATEMENTS



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## GENERAL INFORMATION

### 1. INFORMATION ABOUT THE PARENT ENTITY

#### NAME

EUROCASH Spółka Akcyjna (Parent Entity)

#### REGISTERED OFFICE

ul. Wiśniowa 11, 62-052 Komorniki

#### CORE BUSINESS

Non-specialized wholesale trade  
(PKD 4690Z)

#### REGISTRATION COURT

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

#### PERIOD FOR WHICH THE GROUP WAS ESTABLISHED

Indefinite period

#### PERIOD COVERED BY THE FINANCIAL STATEMENTS

The reporting period 1 January 2014 – 31 December 2014 and comparative period 1 January 2013 – 31 December 2013.

Consolidated statement of financial position has been prepared as at 31 December 2014, and the comparative figures are presented as at 31 December 2013.

### 2. BOARD OF THE PARENT ENTITY

#### 2.1. MANAGEMENT BOARD OF THE PARENT ENTITY

As at 31 December 2014 the Parent Entity's Management Board consisted of the following members:

Luis Manuel Conceicao Do Amaral – President of the Management Board,  
Rui Amaral – Member of the Management Board,  
Araldo 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,  
Carlos Saraiva – Member of the Management Board.

## **2.2. SUPERVISORY BOARD**

As at 31 December 2014 the Parent Entity's Supervisory Board consisted of the following members:

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

## **2.3. CHANGES IN THE MANAGEMENT AND SUPERVISORY BOARD**

No changes occurred in composition of the Management Board or the Supervisory Board during the year.

On 25 February 2015, David Boner was appointed Member of the Management Board of Eurocash S.A.



## CONSOLIDATED INCOME STATEMENT FOR THE PERIOD FROM 01.01 TO 31.12.2014

	Note	for the period from 01.01.2014 to 31.12.2014	for the period from 01.01.2013 to 31.12.2013
			Restated*
<b>Sales</b>		<b>16 963 845 302</b>	<b>16 537 532 494</b>
Sales of goods	26	16 011 121 941	15 693 502 925
Sales of services	26	948 519 551 4	840 950 039 3
Sales of materials		203 810	079 529
<b>Costs of sales</b>		<b>(15 151 561 622)</b>	<b>(14 863 798 431)</b>
Costs of goods sold		(15 027 144 215)	(14 734 876 264)
Costs of services sold	27	(120 824 740)	(126 186 708)
Costs of materials sold		(3 592 667)	(2 735 459)
<b>Gross profit (loss)</b>		<b>1 812 283 680</b>	<b>1 673 734 063</b>
Selling expenses	27	(1 204 697 203)	(1 104 393 431)
General and administrative expenses	27	(287 126 450)	(287 609 927)
<b>Profit (loss) on sales</b>		<b>320 460 026</b>	<b>281 730 705</b>
Other operating income	28	57 987 332	79 514 595
Other operating expenses	28	(91 275 831)	(75 559 710)
<b>Operating profit (loss)</b>		<b>287 171 527</b>	<b>285 685 590</b>
Finance income	29	17 764 222	12 287 481
Finance costs	29	(85 791 241)	(71 303 836)
Share in profits (losses) of equity accounted investees		(330 549)	(591 356)
<b>Profit (loss) before income tax</b>		<b>218 813 959</b>	<b>226 077 879</b>
Income tax expense <b>Profit</b>	23	(35 693 829)	(5 068 402)
<b>(loss) for the period</b>		<b>183 120 130</b>	<b>221 009 478</b>
Attributable to: Owners of the Company		180 537 564	221 009 478
Non-controlling interests		2 582 566	-
<b>EARNINGS PER SHARE</b>			
		PLN / share	PLN / share
Profit (loss)		180 537 564	221 009 478
Weighted average number of shares	30	138 528 195	138 188 296
Weighted average diluted number of shares	30	138 620 708	138 721 946
- basic		1,30	1,60
- diluted		1,30	1,59

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 01.01 TO 31.12.2014

	for the period from 01.01.2014 to 31.12.2014	for the period from 01.01.2013 to 31.12.2013
<b>Profit (loss) for the period</b>	<b>183 120 130</b>	<b>221 009 478</b>
<b>Other comprehensive income for the period</b>	(9 537 324)	-
- The result on hedge accounting with the tax effect which may be reclassified to profit or loss	(9 537 324)	-
<b>Total comprehensive income for the period</b>	<b>173 582 806</b>	<b>221 009 478</b>
<b>Total Income</b>		
Owners of the Company	171 000 240	221 009 478
Non-controlling interests	2 582 566	-
<b>Total comprehensive income for the period</b>	<b>173 582 806</b>	<b>221 009 478</b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31.12.2014

	Note	as at 31.12.2014	as at 31.12.2013
<i>Assets</i>			
<b>Non-current assets (long-term)</b>		<b>2 245 715 015</b>	<b>2 015 513 079</b>
Goodwill	4	1 192 366 287	1 055 533 429
Intangible assets	4	375 549 194	393 574 808
Property, plant and equipment	5	550 433 057	417 745 410
Investment in properties	7	1 248 917	1 283 386
Investments in associates Other	8	-	36 167 498
long-term investments Long-	9	531 570	1 575 462
term receivables Deferred tax	10	2 811 047	5 931 200
assets	24	118 823 742	103 324 796
Other long-term prepayments	25	3 951 200	377 091
<b>Current assets (short-term)</b>		<b>3 125 191 762</b>	<b>2 810 047 077</b>
Inventories	11	1 286 112 026	1 017 822 128
Trade receivables	12	1 524 373 766	1 416 521 310
Current tax receivables	12	23 097 698	12 048 181
Other short-term receivables	12	185 262 104	213 546 440
Other short-term financial assets Short-	13	-	3 042 373
term prepayments	14	19 433 004	17 302 396
Cash and cash equivalents	15	86 913 164	102 518 699
Fixed assets classified as held for sale	16	-	27 245 549
<b>Total assets</b>		<b>5 370 906 776</b>	<b>4 825 560 156</b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31.12.2014

		as at 31.12.2014	as at 31.12.2013
<i>Equity nad liabilities</i>			
<b>Equity</b>		<b>1 034 118 386</b>	<b>884 355 944</b>
<b>Equity attributable to Owners of the Company</b>		<b>1 001 825 298</b>	<b>884 355 944</b>
Share capital	18	138 680 636	138 427 636
Reserve capital		457 945 167	440 197 882
Hedging reserve		(14 182 324)	(4 645 000)
Retained earnings		419 381 819	310 375 426
Accumulated profit from previous years		238 844 255	89 365 948
Profit (loss) for the period		180 537 563	221 009 478
<b>Non-controlling interests</b>		<b>32 293 088</b>	<b>-</b>
<b>Liabilities</b>		<b>4 336 788 390</b>	<b>3 941 204 213</b>
<b>Non-current liabilities</b>		<b>247 994 071</b>	<b>295 287 524</b>
Long-term loans and borrowings	22	-	85 978 892
Long-term financial liabilities	22	162 607 978	154 927 670
Other long-term liabilities	21	2 414 914	251 000
Deferred tax liabilities	24	79 470 776	51 032 109
Employee benefits Provisions	20	3 242 903	3 097 852
	20	257 500	-
<b>Current liabilities</b>		<b>4 088 794 319</b>	<b>3 645 916 689</b>
Loans and borrowings	22	694 593 959	411 697 917
Short-term financial liabilities	22	82 024 537	27 562 105
Trade payables	21	3 063 030 189	2 889 702 742
Current tax liabilities	21	3 521 205	19 939 364
Other short-term payables	21	93 346 050	160 489 481
Current employee benefits	20	62 581 131	52 435 993
Provisions	20	89 697 247	84 089 086
<b>Total equity and liabilities</b>		<b>5 370 906 776</b>	<b>4 825 560 156</b>
<b>BOOK VALUE PER SHARE</b>			

		as at 31.12.2014	as at 31.12.2013
<b>Equity attributable to Owners of the Company</b>		<b>1 001 825 298</b>	<b>884 355 944</b>
Number of shares Diluted	31	138 680 636	138 427 636
number of shares	31	139 554 136	139 577 136
<b>Book value per share Diluted</b>		<b>7,22</b>	<b>6,39</b>
<b>book value per share</b>		<b>7,18</b>	<b>6,34</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 01.01 TO 31.12.2014

for the period  
from 01.01.2014  
31.12.2014

for the period  
from 01.01.2013 to  
31.12.2013

### Cash flow from operating activities

<b>Profit before tax</b>	<b>218 813 959</b>	<b>226 077 879</b>
<b>Adjustments for:</b>	<b>211 915 270</b>	<b>188 830 325</b>
Depreciation and amortization	125 291 293	116 458 900
Share in profits (losses) of equity accounted investees	330 549	591 356
Valuation of motivational programm	12 162 513	7 090 345
Gain (loss) on sale of property, plant and equipment	939 879	593 981
Interest expenses	78 139 585	68 265 236
Interest received	(4 948 550)	(4 169 492)
<b>Operating cash before changes in working capital</b>	<b>430 729 229</b>	<b>414 908 205</b>
Changes in inventory	(133 472 135)	(15 881 771)
Changes in receivables	28 724 429	(112 785 013)
Changes in payables	(23 244 162)	351 412 836
Changes in provisions and employee benefits	(3 167 468)	(44 214 924)
Other adjustments	263 395	426 029
<b>Operating cash</b>	<b>299 833 287</b>	<b>593 865 362</b>
Interest received	1 710 607	2 202 043
Interest paid	(21 845 668)	(16 572 969)
Income tax paid	(34 011 188)	(37 533 852)
<b>Net cash from operating activities</b>	<b>245 687 039</b>	<b>541 960 584</b>

### Cash flow from investing activities

Aquisitionof intangible assets	(32 107 964)	(23 503 148)
Proceeds from sale of intangible assets, property, plant and equipment	45 001	621 877
Aquisition of property, plant and equipment tangible fixed assets Proceeds from sale of property, plant and equipment	(158 413 709)	(118 851 811)
Expenditures for purchased financial assets	34 982 586	19 989 396
Expenditures on the acquisition of companies and organized part of	92 094	-
Expenditures on the acquisition of subsidiaries	-	(30 623 486)
Expenditures on the acquisition of associates	(37 866 211)	-
Expenditure on VAT on sales of trade marks	35 401 781	-
Proceeds from VAT on purchased Trademark	(98 307 474)	-
Interest received	23 576 742	-
	2 463 125	314 863
<b>Net cash used in investing activities</b>	<b>(230 134 029)</b>	<b>(152 052 309)</b>

### Cash flow from financing activities

Proceeds from issue of share capital	5 208 525	4 280 215
Cash outflows for other financial liabilities	4 610 495	(3 264 313)
Proceeds from the issuance of long term debt securities	-	140 000 000
Proceeds from the issuance of short term debt securities	42 000 000	-
Proceeds from loans and borrowings	285 440 911	81 362 610
Repayment of borrowings	(200 089 937)	(488 287 490)
Payment of finance lease liabilities	(5 447 566)	(4 228 323)
Other interests	(27 091 626)	(12 280 959)
Interests on loans and borrowings	(26 337 897)	(37 887 347)
Dividends paid	(109 451 447)	(124 465 442)
<b>Net cash used in financing activities</b>	<b>(31 158 544)</b>	<b>(444 771 049)</b>
<b>Net change in cash and cash equivalents</b>	<b>(15 605 535)</b>	<b>(54 862 774)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>102 518 699</b>	<b>157 381 473</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>86 913 164</b>	<b>102 518 699</b>

## CONSOLIDATED STATEMENT ON CHANGES IN EQUITY FOR THE PERIOD FROM 01.01 TO 31.12.2014

	Share capital	Reserve capital	Hedge reserve	Retained earnings	Equity attributable to Owners of the Company	Non-controlling interests	Total
<i>Changes in equity in the period from 01.01 to 31.12.2013</i>							
<b>Balance as at 01.01.2013</b>	<b>137 976 536</b>	<b>341 097 692</b>	<b>(4 645 000)</b>	<b>303 021 724</b>	<b>777 450 953</b>	<b>-</b>	<b>777 450 953</b>
<b>Total comprehensive income for the reporting period</b>							
Profit (loss) for the period from 01.01. to 31.12.2014	-	-	-	221 009 478	221 009 478	-	221 009 478
<b>Total comprehensive income for the period from 01.01. to 31.12.2013</b>				<b>221 009 478</b>	<b>221 009 478</b>	<b>-</b>	<b>221 009 478</b>
Dividends	-	-	-	(124 465 442)	(124 465 442)	-	(124 465 442)
Transfer to reserve capital	-	88 197 818	-	(88 197 818)	-	-	-
Equity-settled share-based payment transactions	-	7 090 345	-	-	7 090 345	-	7 090 345
Share options exercised	451 100	3 829 115	-	-	4 280 215	-	4 280 215
Other	-	(17 089)	-	(992 515)	(1 009 605)	-	(1 009 605)
<b>Total contributions by and distributions to Owners of the Company</b>	<b>451 100</b>	<b>99 100 189</b>	<b>-</b>	<b>(213 655 776)</b>	<b>(114 104 487)</b>	<b>-</b>	<b>(114 104 487)</b>
<b>Total transaction with Owners of the Company, recognized directly in equity</b>	<b>451 100</b>	<b>99 100 189</b>	<b>-</b>	<b>(213 655 776)</b>	<b>-</b>	<b>-</b>	<b>(114 104 487)</b>
<b>equity Balance as at 31.12.2013</b>	<b>138 427 636</b>	<b>440 197 882</b>	<b>(4 645 000)</b>	<b>310 375 426</b>	<b>884 355 944</b>	<b>-</b>	<b>884 355 944</b>
<i>Changes in equity in the period from 01.01 to 31.12.2014</i>							
<b>Balance as at 01.01.2014</b>	<b>138 427 636</b>	<b>440 197 882</b>	<b>(4 645 000)</b>	<b>310 375 426</b>	<b>884 355 944</b>	<b>-</b>	<b>884 355 944</b>
<b>Total comprehensive income for the reporting period</b>							
Profit of the Company	-	-	-	180 537 564	180 537 564	-	180 537 564
Non-controlling interests	-	-	-	-	-	2 582 566	2 582 566
Other comprehensive income for the period from 01.01. to 31.12.2014	-	-	(9 537 324)	-	(9 537 324)	-	(9 537 324)
<b>Total comprehensive income for the period from 01.01. to 31.12.2014</b>			<b>(9 537 324)</b>	<b>180 537 564</b>	<b>171 000 240</b>	<b>2 582 566</b>	<b>173 582 806</b>
Dividends paid	-	(18 680 556)	-	(90 770 891)	(109 451 447)	-	(109 451 447)
Transfer to reserve capital	-	19 293 351	-	(19 293 351)	-	-	-
Equity-settled share-based payment transactions	-	12 162 513	-	-	12 162 513	-	12 162 513
Share options exercised	253 000	4 956 025	-	-	5 209 025	-	5 209 025
Batna result 2009 for consolidation	-	-	-	38 533 071	38 533 071	29 710 522	68 243 593
Other	-	15 953	-	-	15 953	-	15 953
<b>Total contributions by and distributions to Owners of the Company</b>	<b>253 000</b>	<b>17 747 286</b>	<b>-</b>	<b>(71 531 171)</b>	<b>(53 530 885)</b>	<b>29 710 522</b>	<b>(23 820 363)</b>
<b>Total transaction with Owners of the Company, recognized directly in equity</b>	<b>253 000</b>	<b>17 747 286</b>	<b>-</b>	<b>(71 531 171)</b>	<b>(53 530 885)</b>	<b>29 710 522</b>	<b>(23 820 363)</b>
<b>equity Balance as at 31.12.2014</b>	<b>138 680 636</b>	<b>457 945 167</b>	<b>(14 182 324)</b>	<b>419 381 819</b>	<b>1 001 825 298</b>	<b>32 293 088</b>	<b>1 034 118 386</b>

## **SUPPLEMENTARY INFORMATION TO THE CONSOLIDATED FINANCIAL STATEMENTS PREPARED FOR THE PERIOD FROM 01.01 TO 31.12.2014**

### **1. GENERAL INFORMATION**

#### **1.1. ISSUE OF THE CONSOLIDATED FINANCIAL STATEMENTS**

According to the resolution of the Management Board dated 27 March 2015 the consolidated financial statements of Eurocash S.A. Group for the period from 1 January 2014 to 31 December 2014 were authorized for issue by the management Board. According to the information included in the report no. 1/2015 dated 16 January 2015 sent to the Polish Financial Supervision Authority, Eurocash S.A. issues its consolidated financial statements on 27 March 2015. Eurocash S.A. is a listed company and its shares are publicly traded.

#### **1.2. STATEMENT OF COMPLIANCE**

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

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

EU IFRS include all International Accounting Standards, International Financial Reporting Standards and related Interpretations, except from the mentioned Standards and Interpretations that are waiting for approval by the European Union and the Standards and Interpretations that have been approved by the European Union, but not yet in effective .

The Group did not adopt the possibility of using new Standards and Interpretations that have already been published and accepted by the European Union and which will be effective after the reporting date.

**Standards, Interpretations and amendments to published Standards as adopted by the EU that are not yet effective for annual periods ending on 31 December 2014**

- IFRIC Interpretation 21 Levies, effective for annual periods beginning on 17 June 2014 or after that date,
- Amendments to IAS 19 Employee Benefits entitled Defined Benefit Plans: Employee Contributions effective for annual periods beginning on 1 February 2015 or after that date;
- Improvements to IFRS (2010-2012), The Improvements to IFRSs (2010-2012) contains 8 amendments to 7 standards, with consequential amendments to other standards and interpretations, effective for annual periods beginning on 1 February 2015 or after that date;
- Improvements to IFRS (2011-2013), The *Improvements to IFRSs (2011-2013)* contains 4 amendments to standards, with consequential amendments to other standards and interpretations, effective for annual periods beginning on 1 February 2015 or after that date

**Standards and interpretations not yet endorsed by the EU as at 31 December 2014**

- IFRS 9 Financial Instruments (2014), effective for annual periods beginning on 1 January 2018;
- IFRS 14 Regulatory Deferral Accounts, effective for annual periods beginning on 1 January 2016;
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11 Joint Arrangements), effective for annual periods beginning on 1 January 2016;
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets), effective for annual periods beginning on 1 January 2016;
- IFRS 15 Revenue from Contracts with Customers, effective for annual periods beginning on 1 January 2017;
- Equity Method in Separate Financial Statements (Amendments to IAS 27 *Separate Financial Statements*), effective for annual periods beginning on 1 January 2016;
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates), effective for annual periods beginning on 1 January 2016;
- Improvements to IFRS (2012-2014), The *Improvements to IFRSs (2012-2014)* contains 4 amendments to standards, with consequential amendments to other standards and interpretations, effective for annual periods beginning on 1 January 2016;
- Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates and Joint Ventures*), the Amendments, related to financial reporting of investment entities, effective for annual periods beginning on 1 January 2016;
- Disclosure initiative (Amendments to IAS 1 *Presentation of Financial Statements*), effective for annual periods beginning on 1 January 2016.

**The impact of new regulations on the Capital Group's future financial statements**

The new IFRS 9 and IFRS 15 have a major effect on the classification, presentation and measurement of financial instruments as well as incomes from customer contracts. These changes will have a potential significant impact on the Group's future financial statements. As at



the date of preparation of these financial statements, IFRS 9 and IFRS 15 have not yet been approved by the European Union and their impact on the Group's future financial statements is not yet known.

#### **1.4. FUNCTIONAL AND PRESENTATION CURRENCY, ROUNDINGS**

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

#### **1.5. USE OF ESTIMATES AND JUDGEMENTS**

The preparation of the consolidated financial statements in conformity with UE IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are made based on historical experience and other factors accepted as reasonable in given circumstances, and the results of estimates and judgements are a basis for the determination of the carrying value of assets and liabilities not resulting directly from other sources. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The most significant estimates are related to allocation of the acquisition price of the companies, impairment of assets and reserves, which are described in Note 2, 6 and 20.

#### **1.6. COMPARABILITY OF FINANCIAL STATEMENTS**

Accounting principles as well as calculation methods applied in the preparation of the financial statements remained unchanged in comparison to the ones applied in the last annual consolidated financial statements for the year ended at 31 December 2013, except for the changes described in Note 1.

#### **1.7. INFORMATION ABOUT THE PARENT ENTITY, THE CAPITAL GROUP AND THE ASSOCIATES**

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

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

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

## Entities comprising the Eurocash capital group and associates as at 31.12.2014

No	1	2	3	4	5	6	7	8
Unit	Eurocash S.A.	KDWT Sp. z o.o.	Eurocash Franczyza Sp. z o.o.	Eurocash Trade 1 Sp. z o.o.	Eurocash Trade 2 Sp. z o.o.	Eurocash VC2 Sp. z o.o.	Premium Distributors Sp. z o.o.	Przedsiębiorstwo Handlu Spożywczego Sp. z o.o.
address	ul .Wiśniowa 11 62-052 Komorniki	ul .Wiśniowa 11 62-052 Komorniki	ul .Wiśniowa 11 62-052 Komorniki	ul .Wiśniowa 11 62-052 Komorniki	ul .Wiśniowa 11 62-052 Komorniki	ul .Wiśniowa 11 62-052 Komorniki	ul. Bokserska 66a 02-690 Warszawa	ul .Wiśniowa 11 62-052 Komorniki
core business activity	PKD 4690Z	PKD 4635Z	PKD 8299Z	PKD 4634A	PKD 4634A	PKD 7740Z	PKD 4634A	PKD 4690Z
registration court	District Court Poznań - Nowe Miasto i Wilda of Poznań, VIII Commercial Division of the National Court Register KRS 0000213765	District Court Poznań - Nowe Miasto i Wilda of Poznań, VIII Commercial Division of the National Court Register KRS 0000040385	District Court Poznań - Nowe Miasto i Wilda of Poznań, VIII Commercial Division of the National Court Register KRS 0000259846	District Court Poznań - Nowe Miasto i Wilda of Poznań, VIII Commercial Division of the National Court Register KRS 0000329002	District Court Poznań - Nowe Miasto i Wilda of Poznań, VIII Commercial Division of the National Court Register KRS 0000329037	District Court Poznań - Nowe Miasto i Wilda of Poznań, VIII Commercial Division of the National Court Register KRS 0000490366	District Court Warszawa, XIII Commercial Division of the National Court Register KRS 0000287947	District Court Zielona Góra, VIII Commercial Division of the National Court Register KRS 0000203619
nature of relationship	Parent company	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary
applied consolidation method	Full	Full	Full	Full	Full	Full	Full	Full
date of aquisition	n/a	31.03.2006	10.07.2006	06.04.2009	06.04.2009	14.01.2010	02.08.2010	02.08.2010
ownership interest	n/a	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%
voting rights (in %)	n/a	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%

## Entities comprising the Eurocash capital group and associates as at 31.12.2014 (continued)

No	9	10	11	12	13	14	15	16
Unit	DEF Sp. z o.o.	Detal Podlasie Sp. z o.o.	Lewiatan Podlasie Sp. z o.o.	Euro Sklep S.A.	Ambra Sp. z o.o.	Lewiatan Śląsk Sp. z o.o.	Lewiatan Orbita Sp. z o.o.	Lewiatan Kujawy Sp. z o.o.
address	ul. Handlowa 6 15-399 Białystok	ul. Sokółska 9 15-865 Białystok	ul. Pułaskiego 117A 15-337 Białystok	ul. Bystrzańska 94a 43-309 Bielsko-Biała	ul. Hutnicza 7 43-502 Czechowice-Dziedzice	ul. Lenartowicza 39 41-219 Sosnowiec	ul. Lubelska 33/15 10-410 Olsztyn	ul. Polna 4-8 87-800 Włocławek
core business activity	PKD 4639Z	PKD 4711Z	PKD 02	PKD 4711Z	PKD 4645Z	PKD 7022Z	PKD 4690Z	PKD 4711Z
registration court	District Court Białystok, XII Commercial Division of the National Court Register KRS 0000048125	District Court Białystok, XII Commercial Division of the National Court Register KRS 0000033766	District Court Białystok, XII Commercial Division of the National Court Register KRS 0000508176	District Court Bielsko Biała, VIII Commercial Division of the National Court Register KRS 0000012291	District Court Katowice- Wschód, VIII Commercial Division of the National Court Register KRS 0000254307	District Court Katowice- Wschód, VIII Commercial Division of the National Court Register KRS 0000175768	District Court Olsztyn, VIII Commercial Division of the National Court Register KRS 0000039244	District Court Toruń, VII Commercial Division of the National Court Register KRS 0000109502
nature of relationship	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary
applied consolidation method	Full	Full	Full	Full	Full	Full	Full	Full
date of acquisition	21.12.2011	21.12.2011	18.03.2014	21.12.2011	21.12.2011	21.12.2011	21.12.2011	21.12.2011
ownership interest	100%	100%	100%	100%	100%	100%	100%	100%
voting rights (in %)	100%	100%	100%	100%	100%	100%	100%	100%

## Entities comprising the Eurocash capital group and associates as at 31.12.2014 (continued)

No	17	18	19	20	21	22	23	24
Unit	Lewiatan Wielkopolska Sp. z o.o.	Lewiatan Opole Sp. z o.o.	Lewiatan Zachód Sp. z o.o.	Lewiatan Podkarpacie Sp. z o.o.	Partnerski Serwis Detaliczny S.A.	Gama Detal Sp. z o.o.	Lewiatan Holding S.A.	Lewiatan Północ Sp. z o.o.
address	Os. Winiary 54 60-665 Poznań	ul. Światowida 2 45-325 Opole	ul. Przemysłowa 5 73-110 Stargard Szczeciński	Straszęcin 295 39-218 Straszęcin	ul. Grażyny 15 02-548 Warszawa	Porosły 70 16-070 Choroszcz	ul. Kilińskiego 10 87-800 Włocławek	ul. Bysewska 30 80-298 Gdańsk
core business activity	PKD 7740Z	PKD 7490Z	PKD 6419Z	PKD 8299Z	PKD 7490Z	PKD 7740Z	PKD 7740Z	PKD 4639Z
registration court	District Court Poznań - Nowe Miasto i Wilda, VIII Commercial Division of the National Court Register KRS 0000133384	District Court Opole, VIII Commercial Division of the National Court Register KRS 0000043199	District Court Szczecin Centrum, XIII Commercial Division of the National Court Register KRS 0000017136	District Court Rzeszów, XII Commercial Division of the National Court Register KRS 0000186622	District Court Warszawa, XIII Commercial Division of the National Court Register KRS 0000280288	District Court Białystok, XII Commercial Division of the National Court Register KRS 0000454978	District Court Toruń, VII Commercial Division of the National Court Register KRS 0000089450	District Court Gdańsk- North in Gdańsk, VII Commercial Division of the National Court Register KRS 0000322297
nature of relationship	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary
applied consolidation method	Full	Full	Full	Full	Full	Full	Full	Full
date of acquisition	21.12.2011	21.12.2011	21.12.2011	28.06.2013	21.12.2011	07.03.2013	21.12.2011	21.12.2011
ownership interest	81%	100%	100%	100%	100%	100%	67%	100%
voting rights (in %)	81%	100%	100%	100%	100%	100%	71%	100%

## Entities comprising the Eurocash capital group and associates as at 31.12.2014 (continued)

No	25	26	27	28	29	30	31
Unit	Drogerie Koliber Sp. z o.o.	Eurocash Detal Sp. z o.o.	PayUp Polska S.A.	Eurocash Convenience Sp. z o.o.	Kontigo Sp. z o.o.	Service FMCG Sp. z o.o.	Inmedio Sp. z o.o.
address	ul. Toszecka 101/104 44-117 Gliwice	ul. Wiśniowa 11 62-052 Komorniki	ul. Wiśniowa 11 62-052 Komorniki	ul. Wiśniowa 11 62-052 Komorniki	ul. Wiśniowa 11 62-052 Komorniki	ul. Muszkieterów 15B 02-273 Warszawa	ul. Al. Jerozolimskie 174 02-486 Warszawa PKD
core business activity	PKD 4775Z	PKD 4690Z	PKD 6120Z	PKD 1039Z	PKD 1039Z	PKD 4635Z	4617Z
registration court	District Court Katowice-East in Katowice, VIII Commercial Division of the National Court Register KRS 0000244130	District Court Poznań - Nowe Miasto i Wilda in Poznań, VIII Commercial Division of the National Court Register KRS 000049437	District Court Poznań - Nowe Miasto i Wilda in Poznań, VIII Commercial Division of the National Court Register KRS 0000299000	District Court Poznań - Nowe Miasto i Wilda in Poznań, VIII Commercial Division of the National Court Register KRS 0000509266	District Court Poznań - Nowe Miasto i Wilda in Poznań, VIII Commercial Division of the National Court Register KRS 0000510241	District Court Warszawa, XII Commercial Division of the National Court Register KRS 0000493586	District Court Warszawa, XIII Commercial Division of the National Court Register KRS 0000525507
nature of relationship	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary
applied consolidation method	Full	Full	Full	Full	Full	Full	Full
date of aquisition	21.12.2011	18.11.2013	06.05.2014	05.03.2014	17.04.2014	01.12.2014	01.12.2014
ownership interest	100%	100%	100%	100%	100%	100%	51%
voting rights (in %)	100%	100%	100%	100%	100%	100%	51%

On March 05, 2014 and on April 17, 2014, two new subsidiaries were formed, namely Eurocash Convenience Sp. z o.o. and Eurocash VC1 Sp. z o.o.

As at April 04, 2014, Tradis Sp. z o.o., formerly a subsidiary, was combined with Eurocash S.A.

On April 30, 2014 Lewiatan Podlasie Sp. z o.o. changed its name to Detal Podlasie Sp. z o.o.

On May 6, 2014, in the course of execution of the preliminary agreement of February 11, 2014, Eurocash entered into a sale agreement with Alverca B.V. of Amsterdam, the Netherlands, whereunder Eurocash acquired 51% shares of PayUp Polska S.A. from Alverca. Details are presented in Note 1.

On June 10, 2014, Eurocash entered into a preliminary purchase and sale agreement with Lagarde Services S.A. of Paris, France, and with HDS Polska Sp. z o.o. of Warsaw, Poland, concerning 51% shares in a company that will operate a nationwide chain of "Inmedio" retail stores. On December 01, 2014, with regard to the preliminary agreement of June 10, 2014, Eurocash purchased 51% shares in Inmedio Sp. z o.o. Details are presented in Note 2.

On August 05, 2014 Dania Fast Food Sp. z o.o. merged with Pol Cater Holding Sp. z o.o.

On September 01, 2014 KDWT S.A. (a joint-stock company) was transformed into KDWT Sp. z o.o. (a limited liability company). On February 02, 2015 KDWT Sp. z o.o. changed its name to Eurocash Serwis Sp. z o.o.

On October 01, 2014, a merger took place of Eurocash S.A. with Pol Cater Holding Sp. z o.o. through transfer of all the assets of Pol Cater Holding as the target company to Eurocash as the bidding company.

As at October 01, 2014, Gama Serwis Sp. z o.o., formerly a subsidiary, was combined with Partnerski Serwis Detaliczny S.A.

On October 21, 2014, Eurocash VC1 Sp. z o.o. changed its name to Kontigo Sp. z o.o.

On November 03, 2014, KDWT Spółka Akcyjna Spółka Komandytowo – Akcyjna (a limited joint-stock partnership) was transformed into Eurocash VC2 Sp. z o.o. (a limited liability company).

On November 12, 2014 Lewiatan Podlasie Franczyza Sp. z o.o. changed its name to Lewiatan Podlasie Sp. z o.o.

On November 17, 2014, Eurocash, KDWT and Kolporter closed an investment agreement of December 05, 2013 whereunder Kolporter took over 25%+1 share in KDWT, in exchange for 100% shares in Service FMCG Sp. z o.o.

**1.8. GOING CONCERN ASSUMPTION**

The financial statements were prepared under the assumption that the Group will continue to operate as a going concern for the foreseeable future.

**2. SIGNIFICANT ACCOUNTING POLICIES****2.1. ACCOUNTING POLICIES**

The consolidated financial statements have been prepared on the historical cost basis except for the following items:

- derivative financial instruments measured at fair value,
- financial instruments at fair value through profit or loss measured at fair value,
- available-for-sale financial assets measured at fair value.

The most significant accounting policies applied by Eurocash S.A. Group are presented in points 2.2-2.33.

**2.2. REPORTING PERIOD**

The Group's reporting period is a calendar year.

**2.3. FORMAT AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS**

In particular, the consolidated financial statements are comprised of:

- General information
- Consolidated income statement
- Consolidated statement of comprehensive income
- Consolidated statement of financial position
- Consolidated statement of cash flows
- Consolidated statement of changes in equity
- Supplementary information to the consolidated financial statements, including a summary of significant accounting policies and other explanatory notes.

**2.4. BASIS OF CONSOLIDATION****Subsidiaries**

Due to IFRS 10, subsidiaries are entities controlled by the Group.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

### **Investments in associates**

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognised initially at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees (after adjustments to align the accounting policies with those of the Group) from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

### **Costs of business acquisition**

The costs of business acquisition are valued as the sum of the fair values at the date of exchange of given assets, incurred or assumed liabilities and equity instruments issued by the acquirer with regard to the business acquisition. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

### **Acquisition date**

The day on which the Group obtains actual control of the acquire is the acquisition date. When such acquisition is executed in a way of a single exchange transaction, the date of exchange is the same date as the acquisition date.

In a business combination achieved in stages:

- the cost of the business acquisition is the total cost of all transactions, and
- the exchange date is the date of each exchange transaction (i.e. the day on which each particular investment is included in the financial statements of the Parent Entity), whereas the acquisition date is the date on which the Group obtains control over the acquired entity.

### **Transactions eliminated on consolidation**

As of the acquisition date the carrying value of the Group's investments in subsidiaries is eliminated on consolidation with that part of the subsidiaries' equity which corresponds with the Group's held interest equity.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### **Allocation of the business acquisition costs**



At the acquisition date the Parent Entity recognizes costs of the business acquisition, including identifiable assets, liabilities and contingent liabilities of the acquiree, according to their fair value as at this day, with the exception to non-current assets (or the group of assets to be abandoned) classified as "held for sale", which are measured at their fair value less costs to sale.

The Parent Entity recognises separately identifiable assets, liabilities and contingent liabilities at the acquisition date only if they meet the following criteria at that date:

- when an asset is not an intangible asset, an inflow of all future economic benefits related to that asset is probable and its fair value can be reliably measured;
- when a liability is not a contingent liability, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and its fair value can be reliably measured;
- fair value of an intangible asset or a contingent liability can be reliably measured.

### **Goodwill**

As at the acquisition date, the acquirer:

- recognizes goodwill acquired during the business combination as an asset item,

and

- initially measures goodwill at its acquisition cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Subsequently to the initial recognition, the acquirer measures the goodwill acquired in the business combination at its acquisition cost less accumulated impairment losses.

If the Group's interest in net fair value of identifiable assets, liabilities and contingent liabilities exceeds the acquisition cost, the Group:

- reassess all of the assets acquired, all of the liabilities assumed and the consideration transferred,

and then:

- recognizes the remaining gain in the profit or loss.

The Group may adjust the provisional amounts recognized at the acquisition date during the 12 months period.

## 2.5. FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are translated to the functional currency of Group entities (PLN) at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the average exchange rate of the National Polish Bank at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the average exchange rate of the National Polish Bank at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at average exchange rate of the National Polish Bank at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

## 2.6. INTANGIBLE ASSETS

### Definition

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

- Goodwill,
- Software licences,
- Copyrights,
- Concessions, patents, utility and decorative designs and trademarks,
- Know-how,
- Customer relations,
- Other intangible assets.

### Initial measurement of intangible assets

The initial value of intangible assets is the acquisition cost, which includes the purchase price and other expenditure directly attributable to acquiring the intangible assets.

### Subsequent expenditure

Subsequent expenditure on components of intangible assets is capitalized only when it increases the future economic benefits associated with the item. Other costs including expenditures on internally generated intangible assets such as: trademarks, goodwill and brands are recognized in profit or loss as incurred.

### Amortization

Amortization of intangible assets is calculated for all intangible assets, excluding goodwill and intangible assets with an indefinite useful life. While determining the useful life, the period of generating economic benefits is taken into consideration. If it is hard to determine the reasonable economic useful time or there is no certainty of any expected measurable benefits, the Group recognizes the intangible assets in profit or loss for the period.

The following amortization rates are adopted for intangible assets:

▪ licenses – software	33,3%
▪ copyrights	20%
▪ trademarks	5% - 10%
▪ know-how	10%
▪ relations with customers	10% - 25%
▪ other intangible assets	10% - 20%

The Group considers “Eurocash” and “abc” trademarks as recognizable on the market and intends to use them for a long time. According to these assumptions the Group states that the economic useful life of the above mentioned trademarks is indefinite and they are not amortized. The “Eurocash”, and “abc” and trademarks are subject to impairment testing each year.

### Review of amortization rates and possible impairment

Amortization rates adopted for intangible assets are subject to review at least at each annual reporting date causing respective adjustment of future amortization.

The Group assesses at least at each reporting date whether there is any indication that an asset may be impaired. Impairment losses are recognized in other operating expenses in the period they occurred.

The Group tests annually such intangible assets for impairment by comparing the carrying value of the specified item with its recoverable amount, regardless of any impairment indication.

### Measurement of intangible assets at the reporting date

At the reporting date the Group measures the intangible assets at the acquisition cost less accumulated amortization and any accumulated impairment losses.

## 2.7. PROPERTY, PLANT AND EQUIPMENT

### Definition

Property, plant and equipment include tangible assets held by the Group for economical use (useful and intended to be used by the Group), the expected useful lives of which exceed one year.

Property, plant and equipment shall include in particular:

- Land
- Buildings and constructions,
- Technical equipment and machinery,
- Vehicles,
- Other tangible fixed assets (furniture etc.),
- Fixed assets under construction.

### The initial measurement of tangible fixed assets

The initial value of tangible fixed assets is the acquisition cost comprising purchase price including the amount due to seller (excluding deductible VAT and excise tax) and, in case of import, additional public charges.

The acquisition cost includes expenditures directly attributable to the acquisition of the assets and any other costs directly attributable to bringing the assets to a working condition for their intended use, including transport, loading, discharging, storage and market introduction costs, minus rebates, discounts, and other similar price reductions and refunds. When determination of the acquisition cost of an asset is impossible, in particular when the asset is received free of charge or donated, its value shall be determined on the basis of the selling price of an identical or similar item i.e. its fair value.

The manufacturing cost of fixed assets under construction includes all expenditures incurred from the date the construction, assembly, adaptation or improvement commenced until the reporting date or the day of the bringing the asset into use, plus:

- non-deductible VAT and excise duty,
- costs of obligations incurred for financing of the asset together with the exchange rate differences, decreased by the revenues obtained,
- if required – the estimation of the costs of dismantling and removing the items and restoring the site on which they are located.

#### **Subsequent expenditure**

Subsequent expenditures on replacing parts of an item of property, plant and equipment are capitalized and increase the initially recognized cost of an asset. Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the part will flow to the Group and its cost can be measured reliably. The carrying amount of the removed parts of assets is derecognized. Expenditures on the day-to-day maintenance of property, plant and equipment are recognized as a gain or loss for the period in which they were incurred.

#### **Depreciation**

Depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value. Tangible fixed assets, excluding lands and fixed assets under construction, are depreciated monthly for the period of economic useful life, using a straight-line method and following depreciation rates:

▪ buildings and constructions	2,5% - 4,5%
▪ investments in third parties' property, plant and equipment	10%
▪ technical equipment and machinery	10% - 60%
▪ vehicles	14% - 20%
▪ other tangible fixed assets	20%

Depreciation commences in the month in which the asset was brought into use.

Gain or loss on disposal, liquidation or usage cessation of an item of property, plant and equipment are determined as the difference between the proceeds from disposal and the carrying amount of the assets, and are recognized net in profit and loss.

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

Depreciation rates are subject to analysis at the end of each financial year causing respective adjustment of future depreciation.

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. Impairment losses are charged into other operating expenses in the period the impairment loss was determined. Impairment occurs when no future economic benefits are expected to flow to the Group from the asset e.g. in case of liquidation or usage cessation of the asset. Impairment losses are charged into other operating expenses not later than at the reporting date, in the period the impairment loss was determined.

#### **Measurement of property, plant and equipment at the reporting date**

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

Tangible fixed assets under construction are presented in the financial statements at cost of manufacturing less impairment losses. The cost of manufacturing includes charges and borrowing costs activated in accordance with accounting policy, specified in the point 2.8.

#### **The stocktaking of tangible fixed assets**

The stocktaking of tangible fixed assets is performed every four years.

### **2.8. BORROWING COSTS**

Borrowing costs that are directly attributable to acquiring or manufacturing the qualifying assets shall be capitalized on relevant assets until the date of bringing them into use. These costs are diminished by gains resulted from temporary investment of funds obtained for manufacturing the specified asset.

Borrowing costs include interest and other cost incurred by the Group due to borrowing funds.

Any other borrowing costs are recognized in profit or loss in the period they have occurred.

### **2.9. LEASE CONTRACTS**

The finance lease takes place if the lease contract transfers substantially all the risks and rewards of ownership of the asset to the lessee.

Any other kinds of lease contracts are treated as operating leases.

Assets used on the basis of finance lease contracts are qualified in the same way as the Group's assets. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Lease payments should be split into capital and interest components so as to produce a constant periodic rate of interest on the remaining balance of the finance lease liability.

Outstanding lease payments are recognized in the statement of financial position as financial liabilities divided into short- and long-term parts.

Depreciation methods applied for leased assets are consistent with the accounting policies applied for the Group's owned assets, specified in the points 2.6 and 2.7. If there is no reasonable assurance that the lessee will obtain ownership of the asset by the end of the lease term, the asset is depreciated over a shorter of the following periods: duration of the lease contract or economic useful life of the asset.

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

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease contract when the adjustment is confirmed.

If the Group uses the assets on the basis of operating lease contract, the asset is not recognized in the financial statements and lease payments are recognized as an expense in profit or loss for the period.

#### **2.10. INVESTMENT PROPERTY**

Investment property comprises property held in order to earn rentals or derive economic benefits resulting from capital appreciation.

Investment property is initially measured at its manufacturing or acquisition costs after taking into account transaction costs. At the reporting date investment property is measured at acquisition or manufacturing cost less accumulated depreciation and any accumulated impairment losses in accordance with accounting policies applied for tangible fixed assets.

#### **2.11. LONG-TERM RECEIVABLES**

Long-term receivables comprise receivables due within more than 12 months of the reporting date. The part of long-term receivables which will be paid during next financial year is recognized as current receivables.

Long-term receivables are mostly deposits paid related to renting contracts and bank guarantees and prepayments for tangible fixed assets.

##### **Measurement of long-term receivables**

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

#### **2.12. LONG-TERM PREPAYMENTS**

At each reporting date the analysis is made of long-term prepayments.

The valuation is made by the Company, taking into consideration the rational factors and the knowledge of the individual components of the prepayments.

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

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

The Group classifies a non-current asset or disposal group comprising assets and liabilities as held for sale when its carrying amount will be recovered principally through a sale transaction rather than through its continuing use.

This situation takes place if following conditions are fulfilled:

- the asset is available for immediate sale in its present condition and its sale is highly probable,
- there must be commitment to a plan to sell by an appropriate level of management,
- that plan must have been initiated,
- the assets (or disposal group) must be actively marketed at a reasonable price that is reasonable in relation to the asset's fair value,
- there must be an expectation that the sale will be completed within one year of the classification of assets or a disposal group as held for sale, and activities required to fulfil the

plan indicate that it is unlikely to provide significant changes to the plan or that the plan will be obsolete.

Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale or distribution.

#### 2.14. INVENTORIES

Inventories are assets:

- held for sale in the ordinary course of business (goods),
- materials or supplies purchased to be consumed for own use.

##### **Initial measurement**

Acquisition price is determined using the weighted average method. Under the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased or produced during the period.

Acquisition cost comprises purchase price and other costs incurred for the purpose of bringing the inventories to their existing location and condition.

Purchase costs comprise actual purchase price, import duties, other non-deductible taxes and other directly attributable costs.

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

##### **Measurement of inventories at the reporting date**

Inventories are measured at the lower of cost and net realisable value. Acquisition or construction cost is determined using the the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and sale.

The Group identifies following circumstances that lead to write-down of the inventories, to the level of net realisable value:

- decline of net realisable value (damage, expired etc.)
- the level of inventories exceeding the demand and selling possibilities,
- low rotation of inventories,
- selling prices of inventories are below their carrying amounts.

If the acquisition cost is higher than the net selling price at the reporting date, the inventories are written down to the value of their selling prices.

The amount of any write-down of inventories is recognised in other operating expenses.

### 2.15. NON DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

At the reporting date, the Group determines whether indicators of assets' impairment occurred.

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

Financial assets are classified into following categories:

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

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

#### (a) Financial assets held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity date that the Group has the positive intention and ability to hold to maturity, other than:

- those that the Group designates upon initial recognition as at fair value through profit or loss;
- those that the Group designates as available-for-sale;
- those that meet the definition of receivables and loans.

Those assets that are expected to be sold within 12 months of the reporting date are recognized as current assets.

Investments held-to-maturity are measured at amortised cost using the effective interest rate less impairment losses, if any.



**(b) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, arising as a result of cash expenditures, supplying goods or rendering services, which are not intended to be recognized as assets measured at fair value through profit or loss.

The assets are recognized as current assets excluding those that maturity date exceeds 12 months of the reporting date.

Financial assets classified as loans and receivables are subsequently measured at amortised cost using the effective interest method less impairment losses if any.

Loans and receivables comprise trade receivables and other receivables.

**(c) Available-for-sale financial assets**

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

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

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

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

**Financial liabilities**

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

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

**2.16. DERIVATIVES**

The Group uses derivatives to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for as a stand-alone derivative if:

- the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract,

- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative,
- the hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss.

At the moment of initial recognition of the hedging position, the Group formally documents the relationship between the hedging instrument and hedged item. This documentation contains the purpose of risk management as well as methods that will be used to assess the hedging instrument effectiveness.

The hedge is assessed by the Group at the inception and on an ongoing basis as highly effective if following conditions are met:

- the hedge is expected to be highly effective in offsetting the changes in the fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated
- the actual results of hedge are within a range of 80-125% (retrospective effectiveness)
- Hedging of future transaction cash flows is applied for highly probable transactions exposed to cash flow changes risk that would be recognized as a profit or loss of current reporting period.

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

#### Cash flow hedge

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. The amount recognised in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the statement of comprehensive income as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the income statement.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects the income statement. When the hedged item is a non-financial asset, the amount recognised in other comprehensive income is transferred to the carrying amount of the asset when the asset is recognised. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognised immediately in profit or loss. In other cases the amount recognised in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

#### Other non-trading derivatives

When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognized immediately in profit or loss.

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

**Trade receivables**

Trade receivables comprise receivables resulting from realized supplies or rendered services due within 12 months and more than 12 months of the reporting date.

**Other short-term receivables**

Other short-term receivables comprise receivables due within 12 months of the reporting date excluding trade receivables.

**Measurement of trade receivables and other receivables at the reporting date**

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

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

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

**Measurement of receivables denominated in foreign currency at the reporting date**

Foreign currency receivables are translated at the closing rate at the date of the Group's financial statements. The amount of exchange differences is recognized in profit or loss as other finance income or other finance costs.

**Bad debts allowance**

The value of receivables shall be adjusted by a bad-debts allowance for:

- receivables from debtors put into liquidation or declared bankruptcy - up to the amount of the debts not covered by a guarantee or other payment security declared to a liquidator or judge commissioner in bankruptcy proceedings,
- receivables from debtors with dismissed bankruptcy declaration case if the debtor's property is not sufficient to cover the costs of bankruptcy proceedings - in the full amount,
- debts questioned as to their amounts owed or being in arrears with the repayment thereof and repayment of which, according to the evaluation of the debtor's financial situation, in the contractual amount is not probable - up to the amount of the debt not covered by the guarantee or other payment security,
- debts overdue or not overdue but of a considerable degree of uncollectability – decreased by a reliably measured amount of an allowance,
- court proceeded debts – in the full amount of debts.

The amount of allowance derives not only from the events taking place before the reporting date but also events subsequent to the date of the financial statements' authorization, if those events relate to the debts which existed before the reporting date.

The bad-debts allowance is recognized in other operating expenses or finance costs, depending on the relevant receivable.

**2.18. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise cash balances, call deposits and restricted cash. Bank overdrafts repayable on demand form an integral part of the Group's cash management and are

included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

## 2.19. SHORT-TERM PREPAYMENTS

Short-term prepayments are analyzed at each reporting date. The assessment is made by the Group, taking into consideration reasonable circumstances and knowledge about each position of prepayments.

Short-term prepayments include mainly:

- rent prepayments,
- electric energy and central heating prepayments,
- subscription prepayments,
- prepayments for other services (e.g. telecommunications),
- advance payments for lease of equipment.

## 2.20. IMPAIRMENT

### Financial assets (including receivables)

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

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

- default or delinquency by a debtor,
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise,
- indications that a debtor or issuer will enter bankruptcy,
- the disappearance of an active market for a security,
- for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Group considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment.

All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and

reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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

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

### **Non-financial assets**

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes.

Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Goodwill that forms part of the carrying amount of an investment in an associate is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

## 2.21. EQUITY

### Ordinary shares

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

### Repurchase of treasury shares

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

The amount reserved for repurchase of share capital, based on the Shareholders' Meeting's resolution, is presented in equity as separate capital reserves.

## 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 surface.

### Measurement of the long-term liabilities

At as the reporting date long-term liabilities are measured at amortized cost using the effective interest method.

### Measurement of long-term liabilities denominated in foreign currency

Foreign currency liabilities are measured at least at the reporting date using the spot exchange rate.

Foreign currency gains and losses from valuation of long-term liabilities are recognized in finance income or costs accordingly.

### 2.23. SHORT-TERM LIABILITIES

Short-term liabilities comprise liabilities due to be settled within 12 months from the end of reporting period.

Short-term liabilities include mainly:

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

#### Measurement of the short-term liabilities

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

#### Measurement of short-term liabilities denominated in foreign currency

Foreign currency liabilities are measured at least at the reporting date using the spot exchange rate.

Foreign currency gains and losses from valuation of short-term liabilities are recognized in finance income or expenses accordingly.

### 2.24. LOANS

The Group initially recognizes bank and other loans and debt securities at fair value of cash received decreased by any directly attributable transaction costs.

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

### 2.25. PROVISIONS

Provisions are recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

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

Using the provisions may be made according to the time flow or benefit size. Time and method of settlement should be adequate to the character of expenses, according to the prudence method.

Provisions lower the expenses for the period, in which it was affirmed that the liabilities would not arise.

## 2.26. SALES

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

### Goods sold

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

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

### Services

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

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

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

## 2.27. FINANCE INCOME AND COSTS

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

### Interest income

Interest income is recognized as it accrues in profit or loss on accrual basis, using the effective interest method.

### Dividend income

Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expenses on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through the income statement, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in the income statement using the effective interest method. Foreign currency gains and losses are reported on a net basis.



## 2.28. EMPLOYEE BENEFITS

### Long-term employee benefits

The Group recognizes expenses regarding pension plans and other employee benefits for the post-employment period by defining benefit pension obligation.

The calculation of Employee benefits reserves is performed using the projected unit credit method. The calculation is performed by a qualified actuary. The liability is recognized on an accrual basis and measured in the discounted present value of benefits, that employees have earned as at the reporting date, adjusted by personnel and demographic movements indexes.

### Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

The Group recognizes liability for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

## 2.29. SHARE-BASED PAYMENT TRANSACTIONS

The share-based payment transactions allow employees to cover share of the controlling company. The fair value of share-based payment awards granted to employees is recognized as separate position in profit or loss as an employee expense, with a corresponding increase in equity (reserve capital). The fair value is measured as at the grant date and recognized over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met.

The fair value of the employee share options rights is measured using Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holders' behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

## 2.30. INCOME TAX

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment or tax payable in respect of previous years. Tax income differs from the accounting profit (loss) regarding the elimination of taxable income and expenses related to future years and income and expenses which will never be taxable. Tax liabilities are calculated based on tax rates effective during the reporting period.

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

Deferred tax liability is recognized for all taxable positive temporary differences and deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax is not recognized for taxable temporary

differences arising on the initial recognition of goodwill and on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, excluding transactions related to mergers and acquisitions.

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

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

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

### **2.31. DISCONTINUED OPERATIONS**

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is represented as if the operation had been discontinued from the start of the comparative period.

### **2.32. EARNINGS PER SHARE**

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

### **2.33. OPERATING SEGMENTS**

An operating segment is a component of the Group:

- a) which engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses that relate to transactions with any of the Group's other components);
- b) which results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance;
- c) for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly

corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

### 3. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS PREPARED FOR THE PERIOD FROM 01.01 TO 31.12.2014

#### NOTE 1. CORRECTION OF PREVIOUS YEARS

Correction of presentation of other operating incomes and expenses.

In 2014, the Group adjusted its presentation of other operating incomes and expenses for 2013 in order to maintain comparability of data. The above adjustment had no effect on the amount of consolidated net profit or consolidated shareholders' equity of the Group as at December 31, 2014.

Table No 1

#### CONSOLIDATED INCOME

STATEMENT For the period 01.01-31.12.2013	The value shown in the approved report	Adjustment	Value after conversion
Other operating income	77 314 457	2 200 139	79 514 595
Other operating expenses	(73 359 571)	(2 200 139)	(75 559 710)

#### NOTE 2. ACQUISITIONS

##### 1. Acquisition of the remaining 51% shares of PayUp Polska S.A.

##### General

On May 6, 2014, in the course of execution of the preliminary agreement of February 11, 2014, Eurocash entered into a sale agreement with Alverca B.V. of Amsterdam, the Netherlands, whereunder Eurocash acquired 51% shares of PayUp Polska S.A. from Alverca. As a result of this transaction, Eurocash is the holder of 100% shares of PayUp Polska S.A.

##### Settlement of acquisitions

These consolidated financial statements account for the settlement of the acquisition price of PayUp Polska S.A.

Table no 2

#### ACQUISITION COST

	as at 06.05.2014
Own resources	2 733 445 PLN
Cash	<u>2 733 445</u>

Acquisition price was paid in whole until December 31, 2014.

Table no 3

**NET ASSETS ACQUIRED**Settlement of  
the acquisition  
as at 06.05.2014

<i>Assets</i>	
Goodwill	3 754 698
Other intangible fixed assets	3 602 020
Deferred income tax assets	2 205 907
Inventory	3 368 022
Trade receivables	13 946 433
Other short-term receivables	2 479 002
Short-term prepayments	127 245
Cash and cash equivalents	1 010 382
<b>Total assets</b>	<b>30 493 709</b>
<i>Equity nad liabilities</i>	
Long-term loans and credits	747 500
Deferred income tax provision	209 721
Short-term loans and credits Other	3 044 846
short-term financial liabilities Trade	158 302
liabilities	25 991 856
Other short-term liabilities Current	924 389
employee benefits	231 731
Other short-term provisions	1 738 766
<b>Total liabilities</b>	<b>33 047 110</b>
<b>Net assets aquired</b>	<b>(2 553 402)</b>
The value of shares in PayUp (associate) at the date of acquisition of additional 51% stake	435 168
Goodwill on the acquisition	5 722 015
<b>Acquisition cost</b>	<b>2 733 445</b>

Gross value of long- and short-term receivables as at the acquisition date in PayUp as the consolidated company was PLN 13,946,433, including PLN 177,142 of doubtful receivables.

The amounts of revenue and profit or loss of the acquired entity since the acquisition date included in the consolidated statement of profit and loss for the year 2014 were not separately presented in the note due to their insignificance.

The revenue and profit or loss of the Group pro forma for the year 2014 as though the acquisition date for the business combination occurred as at 1 January 2014 were not presented in the note due to lack of their significant influence

## 2. Acquisition of 100% shares of FMCG Sp. z o.o. by KDWT Sp. z o.o.

### General

On November 17, 2014, Eurocash, KDWT and Kolporter closed an investment agreement of December 05, 2013 whereunder Kolporter took over 25%+1 share in KDWT.

The above mentioned minority stake in KDWT was taken up by Kolporter in exchange for a non-cash contribution of 100% shares in a newly formed company to which Kolporter transferred an organized part of business that comprised Kolporter's tobacco products, food, beverages and other FMCG distribution activities.

Table no 4

#### **GENERAL INFORMATION CONCERNING BUSINESS ACQUISITION OF THE UNITS**

1.	Name of acquired company	<b>Service FMCG Sp. z o.o.</b>
2.	Acquisition date	17.11.2014
3.	Takeover date	17.11.2014
4.	Acquisition cost	61 359 140 PLN

#### **Settlement of acquisitions**

Considering the very short time between acquisition of this Company and preparation of these consolidated financial statements, these consolidated statements present a preliminary settlement of the acquisition price of shares in Service FMCG Sp. z o.o. The Group is currently identifying and calculating the acquired intangible assets and liabilities.

For the purposes of these consolidated annual financial statements, it was only possible to make a preliminary assessment of fair values of identifiable assets, liabilities and contingent liabilities. Specifically, as at the date of preparing these consolidated annual financial statements, the Group is currently identifying and carrying any intangible assets. The Group is entitled to adjust the estimated values arising from the initial temporary settlement of acquisition price during the valuation period of twelve months after the date of acquisition.

Table no 5

## NET ASSETS ACQUIRED

Settlement of  
the acquisition  
as at 17.11.2014

<i>Assets</i>	
Other intangible fixed assets	920 479
Tangible fixed assets	1 692 601
Deferred income tax assets	3 240 697
<b>Current assets (short-term)</b>	<b>202 271 240</b>
Inventory	101 272 861
Trade receivables	93 550 306
Other short-term receivables	2 995 997
Short-term prepayments	274 951
Cash and cash equivalents	4 177 125
	<b>208 125 017</b>
<i>Equity nad liabilities</i>	
Other long-term financial liabilities	244 081
Short-term loans and credits	109 598 387
Trade liabilities	90 493 084
Current income tax liabilities	34 515
Employee benefits	2 351 878
Other short-term liabilities	4 725 084
Other short-term provisions	8 786 835
<b>Total liabilities</b>	<b>216 233 864</b>
<b>Net assets</b>	<b>(8 108 848)</b>
Value of net assets acquired	(6 081 552,57)
Goodwill on acquisition	67 440 693
<b>Acquisition cost</b>	<b>61 359 140</b>

Gross value of long- and short-term receivables as at the acquisition date in consolidated FMCG companies was PLN 93,550,306, and the Company did not have any doubtful receivables.

The amounts of revenue and profit or loss of the acquired entity since the acquisition date included in the consolidated statement of profit and loss for the year 2014 were not separately presented in the note due to their insignificance resulting from the fact that the entity was acquired at the end of 2014.

The revenue and profit or loss of the Group pro forma for the year 2014 as though the acquisition date for the business combination occurred as at 1 January 2014 were not presented in the note due to lack of appropriate data and the fact that the acquired entity was created in 2014 shortly before acquisition by the Group.

### 3. Acquisition of 51% shares of Inmedio Sp. z o.o.

#### General

On December 1, 2014, in the course of execution of the Investment Agreement of June 10, 2014, Eurocash entered into a sale agreement with HDS Polska Sp. z o.o. of Warsaw, Poland, whereunder Eurocash acquired 51% shares in Inmedio Sp. z o.o., operator of a chain of Inmedio retail stores, as well as the right to use the "1minute" trademark and to develop a shopping chain under this mark, from HDS.

Table no 6

**GENERAL INFORMATION CONCERNING BUSINESS ACQUISITION OF THE UNITS**

1.	Name of acquired company	Inmedio Sp. z o.o.
2.	Acquisition date	01.12.2014
3.	Takeover date	01.12.2014
4.	Acquisition cost	72 520 000 PLN

**Settlement of acquisitions**

Considering the very short time between acquisition of this Company and preparation of these consolidated financial statements, these consolidated statements present a preliminary settlement of the acquisition price of shares in Inmedio Sp. z o.o. The Group is currently identifying and calculating the acquired intangible assets and liabilities.

For the purposes of these consolidated annual financial statements, it was only possible to make a preliminary assessment of fair values of identifiable assets, liabilities and contingent liabilities. Specifically, as at the date of preparing these consolidated annual financial statements, the Group is currently identifying and carrying any intangible assets. The Group is entitled to adjust the estimated values arising from the initial temporary settlement of acquisition price during the valuation period of twelve months after the date of acquisition.

Table no 7

**NET ASSETS ACQUIRED****Settlement of  
the acquisition  
as at 01.12.2014**

<i>Assets</i>	
Other intangible fixed assets	23 030
Tangible fixed assets	43 412 081
Long-term receivables Other	9 000
long-term prepayments	201 800
Inventory	30 176 879
Trade receivables	6 721 022
Other short-term receivables	13 108 347
Short-term prepayments Cash and cash equivalents	192 260
	9 476 657
	<b>103 321 075</b>
<i>Equity nad liabilities</i>	
Other long-term financial liabilities	4 322 735
Other long-term liabilities	1 848 414
Other long-term provision	330 400
Other short-term financial liabilities	2 055 027
Trade liabilities	72 806 382
Other short-term liabilities	3 478 591
Other short-term provisions	1 126 878
	<b>85 968 427</b>
<b>Net assets</b>	<b>17 352 647</b>
Goodwill on acquisition	63 670 150
<b>Acquisition cost</b>	<b>72 520 000</b>



Gross value of long- and short-term receivables as at the acquisition date in Inmedio as a consolidated company was PLN 6,721,022, and the Company did not have any doubtful receivables.

The amounts of revenue and profit or loss of the acquired entity since the acquisition date included in the consolidated statement of profit and loss for the year 2014 were not separately presented in the note due to their insignificance resulting from the fact that the entity was acquired at the end of 2014.

The revenue and profit or loss of the Group pro forma for the year 2014 as though the acquisition date for the business combination occurred as at 1 January 2014 were not presented in the note due to lack of appropriate data and the fact that the acquired entity was created in 2014 shortly before acquisition by the Group.

### NOTE 3. OPERATING SEGMENTS

The Group distinguishes the following segments, that correctly shows a different specificity of activity:

- *Independent clients* – who do not have permanent contracts with the Eurocash Group eg, cash&carry, cigarettes, alcohol distribution. The segment includes the activity carried out through a network of wholesale discount Cash & Carry as well as the activities of the group companies of Premium Distributors, KDWT Sp. z o.o., Service FMCG Sp. z o.o. and PayUp Polska S.A.,
- *Integrated clients* – who have long-term contracts with the Eurocash Group, eg.: HoReCa, petrol stations and franchise systems. Segment is associated with the activity of connected with Eurocash S.A. company Eurocash Dystrybucja Sp. z o.o., spółkami Grupy Tradis: Euro Sklep S.A., Lewiatan Śląsk Sp. z o.o., Detal Podlasie Sp. z o.o., Lewiatan Holding S.A., Lewiatan Zachód Sp. z o.o., Lewiatan Wielkopolska Sp. z o.o., Lewiatan Kujawy sp. z o.o., Lewiatan Opole Sp. z o.o., Lewiatan Orbita Sp. z o.o., Lewiatan Północ Sp. z o.o., Lewiatan Podkarpacie Sp. z o.o., Lewiatan Podlasie Sp. z o.o., Drogerie Koliber Sp. z o.o., Eurocash Detal Sp. z o.o. and connected activity of Eurocash Franczyza Sp. z o.o. and Delikatesy Centrum and the activity related to the franchise system of Tradis (after the merger with Detal Koncept),
- *Tradis companies providing active distribution* - which represents the wholesale business of the Tradis Group companies providing active distribution. The segment is related to the activities of the companies: Tradis Sp. z o.o. (merged with Eurocash S.A.), DEF Sp. z o.o., and Ambra Sp. z o.o. These companies have been presented as a separate segment to showcase their importance.
- *others* –Eurocash Trade 1 Sp. z o.o. and Eurocash Trade 2 Sp. z o.o., Eurocash VC2 Sp. z o.o., Tradis Group companies: Partnerski Serwis Detaliczny S.A., Gama Detal Sp. z o.o., Eurocash Convenience Sp. z o.o., Kontigo Sp. z o.o., Inmedio Sp. z o.o. None of these types of activities meets the individual quantitative criteria of determination of separate reporting segments.

There are varying levels of integration between the segments. These relationships include mutual sales of merchandise, provision of marketing services, logistics, administrative support, and other services. The accounting policies of each specific reporting segment are the same as the policies of the whole Group.

Eurocash Group operates only in the territory of Poland, considering economic conditions and business risks, it can be treated as an uniform territory.

In the wholesale FMCG distribution sector, sales in the first quarter of the year is traditionally lower than in the other quarters. Sales are lowest in summer, to then stabilize around Q4.

The management of the Group Eurocash S.A. not conduct periodic review of assets and liabilities of individual business segments.

Table no 8

## REVENUES AND PROFITS BY BUSINESS SEGMENTS IN THE PERIOD FROM 01 JANUARY 2014 TO 31 DECEMBER 2014

	Independent clients	Active Distribution - Tradis Group	Integrated clients	Other	Exclusions	Total
<b>Sales</b>	<b>10 643 470 199</b>	<b>4 021 673 481</b>	<b>2 943 662 082</b>	<b>111 206 317</b>	<b>(756 166 777)</b>	<b>16 963 845 302</b>
External sales	10 178 003 792	4 020 710 283	2 659 002 712	106 128 514	-	16 963 845 302
Inter-segmental sales	465 466 407	963 197	284 659 370	5 077 803	(756 166 777)	-
<b>Operating profit</b>	<b>150 076 538</b>	<b>48 949 194</b>	<b>88 329 407</b>	<b>(183 612)</b>	<b>-</b>	<b>287 171 527</b>
Finance income						17 764 222
Finance costs						(85 791 241)
Share in losses of companies consolidated with the equity method						(330 549)
<b>Profit before income tax</b>						<b>218 813 959</b>
Income tax						(35 693 829)
<b>Net profit</b>						<b>183 120 130</b>

Table no 9 (continued)

**REVENUES AND RESULTS BY BUSINESS SEGMENTS IN THE PERIOD FROM 01 JANUARY 2013 TO 31 DECEMBER 2013**

	Independent clients	Active Distribution - Tradis Group	Integrated clients	Other	Exclusions	Total
<b>Sales</b>	<b>9 759 917 474</b>	<b>4 640 484 607</b>	<b>2 831 497 981</b>	<b>109 573 415</b>	<b>(803 940 982)</b>	<b>16 537 532 494</b>
External sales	9 348 424 459	4 524 839 330	2 586 347 265	77 921 441	-	16 537 532 494
Inter-segmental sales	411 493 015	115 645 277	245 150 716	31 651 974	(803 940 982)	-
<b>Operating profit</b>	<b>83 750 251</b>	<b>63 667 275</b>	<b>110 510 063</b>	<b>27 824 223</b>	<b>(66 221)</b>	<b>285 685 590</b>
Finance income						12 287 481
Finance costs						(71 303 836)
Share in losses of companies consolidated with the equity method						(591 356)
<b>Profit before income tax</b>						<b>226 077 879</b>
Income tax						(5 068 402)
<b>Net profit</b>						<b>221 009 478</b>

**NOTE 4.****GOODWILL AND INTANGIBLE ASSETS**

Goodwill and intangible assets are presented in table below.

Table no 10

**GOODWILL AND INTANGIBLE FIXED ASSETS IN THE PERIOD FROM 01.01 TO**

**31.12.2014**

	Goodwill	Patents and licences	Know how	Trademarks customer relations	Other intangible assets	Total	
Carrying amount as at 01.01.2013	1 049 287 679	22 715 680	9 083 015	70 781 291	283 066 667	37 035 576	1 471 969 909
Acquisition through business combination			-	-	-		-
Other acquisitions	6 245 750	15 027 196	-	-	-	8 487 006	29 759 952
Disposals	-	(761 408)	-	-	-	(9 350)	(770 758)
Liquidations	-	(155 320)	-	-	-	(714 280)	(869 601)
Advances	-	-	-	-	-	-	-
Amortisation	-	(11 472 855)	(5 449 808)	(1 350 423)	(20 855 556)	(10 520 425)	(49 649 067)
Other changes	-	-	-	-	-	(1 332 198)	(1 332 198)
Carrying amount as at 31.12.2013	1 055 533 429	25 353 293	3 633 207	69 430 869	262 211 111	32 946 329	1 449 108 237
Carrying amount as at 01.01.2014	1 055 533 429	25 353 293	3 633 207	69 430 869	262 211 111	32 946 329	1 449 108 237
Acquisition through business combination	136 832 858	5 000 750	-	-	-	2 049 005	143 882 613
Other acquisitions	-	19 406 039	-	-	-	13 056 893	32 462 932
Disposals	-	(4 002)	-	-	-	(36 088)	(40 090)
Liquidations	-	-	-	-	-	(1 154 202)	(1 154 202)
Amortisation	-	(16 894 970)	(3 633 207)	(4 234 000)	(21 944 436)	(10 311 111)	(57 017 725)
Other changes	-	-	-	-	-	673 716	673 716
Carrying amount as at 31.12.2014	1 192 366 287	32 861 110	-	65 196 869	240 266 675	37 224 541	1 567 915 481

Table no 10

**GOODWILL AND INTANGIBLE FIXED ASSETS IN THE PERIOD FROM 01.01 TO 31.12.2014****(continued)**

	Goodwill	Patents and licences	Know how	Trademarks customer relations	Other intangible assets	Total	
<i>As at 01.01.2014</i>							
Cost	1 055 533 429	81 783 290	54 498 079	80 036 291	301 200 000	84 872 534	1 657 923 623
Accumulated amortisation and impairment losses	-	(56 429 997)	(50 864 872)	(10 605 423)	(38 988 889)	(51 926 207)	(208 815 387)
Carrying amount	1 055 533 429	25 353 293	3 633 207	69 430 869	262 211 111	32 946 327	1 449 108 235
<i>As at 31.12.2014</i>							
Cost	1 192 366 287	106 186 077	54 498 079	80 036 291	301 200 000	99 461 857	1 833 748 592
Accumulated amortisation and impairment losses	-	(73 324 967)	(54 498 079)	(14 839 423)	(60 933 325)	(62 237 319)	(265 833 112)
Carrying amount	1 192 366 287	32 861 110	0	65 196 869	240 266 675	37 224 539	1 567 915 479

Goodwill presented in the consolidated statement of financial position consists of the following items:

- a) goodwill on acquisition of an organized part of "Carment, M. Stodółka i Wspólnicy Spółka Jawna" enterprise in the amount of PLN 11.565.477;
- b) goodwill on acquisition of "KDWT S.A" in the amount of PLN 22.103.227;
- c) goodwill on acquisition of "Eurocash Dystrybucja Sp. z o.o." (former "McLane Polska Sp. z o.o.") in the amount of PLN 56.868.456;
- d) goodwill on acquisition of "Nasze Sklepy Sp. z o.o." in the amount of PLN 2.596.627;
- e) goodwill on acquisition of "Przedsiębiorstwo Handlowe Batna Sp. z o.o." in the amount of PLN 29.180.412;
- f) goodwill on acquisition of Premium Distributors Group in the amount of PLN 226.352.528;
- g) goodwill on acquisition of PolCater Group in the amount of PLN 11.428.359;
- h) goodwill on acquisition of Tradis Group in the amount of PLN 689.192.593,
- i) goodwill on acquisition of Dziembor i Spółka Sp. z o.o in the amount of PLN 5.253.762,
- j) goodwill on acquisition of Przedsiębiorstwo Handlowo- Usługowe Noban sp. z o.o in the amount of PLN 991.988,
- k) goodwill on acquisition by Eurocash S.A. of 51% shares in affiliate: PayUp S.A., in the amount of PLN 5,722,015,
- l) goodwill on acquisition by Eurocash S.A. of FMCG Service sp. z o.o., in the amount of PLN 67,440,693,
- m) goodwill on acquisition by Eurocash S.A. of Inmedio sp. z o.o., in the amount of PLN 63,670,150.

Customer relationship has been identified through the acquisition of:

- a) Premium Distributors Group companies in the amount of PLN 49.000.000 (amortization period 10 years);
- b) PolCater Group in the amount of PLN 2.200.000 (amortization period 3 years),
- c) Tradis Group in the amount of PLN 250.000.000 (amortization period 20 years).

The Group has the following intangible assets with indefinite useful lives:

- a) "Eurocash" trademark with a carrying amount of PLN 27.387.672,
- b) "abc" trademark with a carrying amount of PLN 17.216.759,

Apart from the above mentioned trademarks, there are other trademarks recognized in the Group's ledgers - "MHC" and "Batna", with a defined useful life.

Amortization of intangible assets is recognized as selling expenses.

The Group did not recognize any impairment losses in relation to intangible assets, what is expanded in Note 6.

**NOTE 5.****PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment are presented below:

Table no 11

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

**31.12.2014**

	Land and buildings	Plant and equipment	Vehicles	Other fixed assets	Fixed assets under construction	Total
<b>Carrying amount as at 01.01.2013</b>	<b>227 678 924</b>	<b>48 904 735</b>	<b>29 521 217</b>	<b>57 580 907</b>	<b>13 433 512</b>	<b>377 119 295</b>
Other acquisitions	14 910 167	23 933 184	2 255 790	25 550 400	60 203 215	126 852 756
Increases due to the transfer of fixed assets under construction	25 365 893	2 254 588	-	1 512 391	(29 983 530)	(850 659)
Finance lease	-	-	1 566 012	-	-	1 566 012
Disposals	(3 007 076)	(1 248 947)	(3 087 319)	(1 721 431)	(7 459 207)	(16 523 978)
Liquidations	(4 170 485)	(632 344)	(299 211)	(436 034)	(61 500)	(5 599 574)
Depreciation	(19 215 899)	(13 976 774)	(10 964 601)	(22 652 559)	-	(66 809 833)
Other changes	3 167 775	(28 068)	229 756	(1 378 071)	-	1 991 392
<b>Carrying amount as at 31.12.2013</b>	<b>244 729 297</b>	<b>59 206 374</b>	<b>19 221 646</b>	<b>58 455 603</b>	<b>36 132 491</b>	<b>417 745 410</b>
<b>Carrying amount as at 01.01.2014</b>	<b>244 729 297</b>	<b>59 206 374</b>	<b>19 221 646</b>	<b>58 455 603</b>	<b>36 132 491</b>	<b>417 745 410</b>
Acquisition through business combination	26 453 685	10 061 816	799 939	10 142 687	1 248 574	48 706 702
Other acquisitions	21 378 609	32 999 997	3 481 055	37 901 183	62 998 253	158 759 097
Increases due to the transfer of fixed assets under construction	46 049 055	2 205 454	1 524 873	1 587 641	(51 722 630)	(355 607)
Finance lease	2 577 706	-	58 490	-	-	2 636 196
Disposals	(733 675)	(2 912 464)	(2 069 820)	(2 283 973)	(26 780 061)	(34 779 994)
Liquidations	(562 919)	(461 458)	(66 229)	(306 391)	-	(1 396 997)
Reclassification from assets held for sale	27 245 549	-	-	-	-	27 245 549
Depreciation	(18 534 269)	(15 489 703)	(8 840 422)	(25 409 175)	-	(68 273 569)
Other changes	-	-	-	146 270	-	146 270
<b>Carrying amount as at 31.12.2014</b>	<b>348 603 038</b>	<b>85 610 016</b>	<b>14 109 532</b>	<b>80 233 844</b>	<b>21 876 627</b>	<b>550 433 057</b>

Table no 11

**PROPERTY, PLANT AND EQUIPMENT IN THE PERIOD FROM 01.01 TO 31.12.2014**

(continued)

	Land and buildings	Plant and equipment	Vehicles	Other fixed assets	Fixed assets under construction	Total
<i>As at 01.01.2014</i>						
Cost	348 150 363	141 364 198	106 732 383	181 235 507	36 132 490	813 614 942
Accumulated amortisation and impairment losses	(103 421 066)	(82 157 824)	(87 510 736)	(122 779 904)	-	(395 869 531)
<b>Carrying amount</b>	<b>244 729 297</b>	<b>59 206 374</b>	<b>19 221 646</b>	<b>58 455 603</b>	<b>36 132 490</b>	<b>417 745 410</b>
<i>As at 31.12.2014</i>						
Cost	470 558 374	183 257 542	110 460 691	228 422 923	21 876 627	1 014 576 157
Accumulated amortisation and impairment losses	(121 955 335)	(97 647 527)	(96 351 159)	(148 189 079)	-	(464 143 100)
<b>Carrying amount</b>	<b>348 603 038</b>	<b>85 610 016</b>	<b>14 109 532</b>	<b>80 233 844</b>	<b>21 876 627</b>	<b>550 433 057</b>

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

The Group uses land, vehicles, and forklift trucks under finance lease. According to the lease agreements the Group has a right to buy the assets after the termination of the agreed term of lease for a price stated in the agreement or to continue using the leased property under a new lease contract signed with the financing institution. The price is a difference between the value of the leased property repaid immediately and the value of the capital repaid in lease instalments. As at the end of the reporting period, the carrying amount of tangible fixed assets under finance lease was PLN 16.062.280 (31.12.2013: PLN 16.479.920), and the amount payable to the lessor in this respect amounted to PLN 21.680.890 (31.12.2013: PLN 17.923.119). The leased items are a property of the lessor (the financing institution) until they are acquired by the Group. Those assets are depreciated for tax purposes by the lessor.

The lease contracts do not include any provisions or any obligations upon the Group concerning dividends, additional debt or additional lease contracts.

Realisation of the lease agreements is secured on lease assets.



**NOTE 6.**  
**ANALYSIS OF INDICATIONS OF POTENTIAL IMPAIRMENT OF ASSETS**

According to IAS 36 as at 31 December 2014, the Group assessed whether there was any indication that assets might be impaired.

Analyses confirmed that it is not necessary to recognize impairment loss as at 31.12.2014.  
 The subsequent assessment is planned on 31.12.2015.

The Group performed impairment tests for trademarks with an indefinite useful:

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

- impairment test of the "Eurocash" trademark with a value PLN 27,387,672 as at 31.12.2014,
- impairment test of the "abc" trademark with a value PLN 17,216,759 as at 31.12.2014.

Value in use of the trademark was determined based on license fee method.

Valuation method based on license fees consists in determining the present value of future economic benefits derived by an entity from the trademark. This method is based on the assumption that the benefits derived from the trademark are equal to costs which would have to be incurred by an entity with no rights to the trademark (if trademark had been used under a license agreement charged at market rates).

The market level of license fees is determined based on projection of sales of products marked with the trademark with 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.

For impairment tests for goodwill recoverable amount was determined as the value in use of the tested cash-generating unit, based on financial projections for years 2015-2019, assuming no growth after the forecast period. To determine the values of selected projection ratios, historical data was used for year 2014 and plans approved by the Management Board for years 2015-2019. The Weighted Average Cost of Capital (WACC) was used as the discount rate (from 9,35%).

In order to determine total sales value, sales increases were forecasted for like-for-like stores existing on the date of testing, as well as increasing number of stores in each year of the forecast. Average sales of new stores during the first year of their operation were estimated as about 50% of average sales generated by existing stores.

In order to determine the cost of capital, 11 comparable trading companies were analyzed.

Analyses confirmed that it is not necessary to recognize impairment loss.  
 The subsequent assessment is planned on 31.12.2015.

The Group performed impairment tests in respect of goodwill:

- impairment test of goodwill arising from acquisition of an organized part of enterprise: Carment M. Stodółka i Wspólnicy Spółka Jawna with a value PLN 11,565,477 and company Nasze Sklepy Sp. z o.o. with a value PLN 2,596,627 performed as at 31.12.2014,
- impairment test of goodwill arising from acquisition of KDWT Sp. .z o.o., Noban and Dziembor with a value PLN 28,348,977 performed as at 31.12.2014,
- impairment test of goodwill arising from acquisition of Eurocash Dystrybucja Sp. z o.o. with a value PLN 56,868,456 performed as at 31.12.2014,
- impairment test of goodwill arising from acquisition of Przedsiębiorstwo Handlowe Batna Sp. z o.o. with a value PLN 29,180,412 performed as at 31.12.2014,
- impairment test of goodwill arising from acquisition of Premium Distributors Group companies with a value PLN 226,352,528 performed as at 31.12.2014,
- impairment test of goodwill arising from acquisition of Pol Cater Holding Sp. z o.o. with a value PLN 11,428,359 performed as at 31.12.2014,

- impairment test of goodwill arising from acquisition of Tradis Group companies with a value PLN 689,192,593 performed as at 31.12.2014,
- impairment test of the goodwill created through acquisition of PayUp Polska S.A. with the value of PLN 5,722,015 as at 31.12.2014.
- impairment test of the goodwill created through acquisition of Service FMCG Sp. z o.o. with the value of PLN 67,440,693 as at 31.12.2014.
- impairment test of the goodwill created through acquisition of Inmedio Sp. z o.o. with the value of PLN 63,670,150 as at 31.12.2014.

The recoverable amount was compared to the carrying value of assets defined as the sum of the cash generating unit, excluding goodwill, net of liabilities forming part of working capital.

Excess of recoverable amount over the carrying amount of the cash-generating unit was compared with the goodwill recognized in the consolidated financial statements.

For purposes of impairment tests performed for goodwill carrying amounts of goodwill were determined. In addition it was assumed that generation of cash flows by CGUs requires involvement of net assets and therefore, carrying amounts of goodwill were also grouped with net assets for the purpose of testing.

For impairment tests recoverable amount was determined as the value in use of the tested cash-generating unit, based on financial projections for years 2015-2019, assuming no growth after the forecast period. To determine the values of selected projection ratios, historical data was used for year 2014 and plans approved by the Management Board for years 2015-2019. The Weighted Average Cost of Capital (WACC) was used as the discount rate (depending on the value of the company and its kind of activity, it was (from 8,11% to 10,59%).

In order to determine total sales value, sales increases were forecasted for stores existing on the date of testing, as well as increasing number of stores in each year of the forecast. Average sales of new stores during the first year of their operation were estimated as about 50% of average sales generated by existing stores.

In order to determine the cost of capital, 11 comparable trading companies were analyzed.

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

The subsequent assessment is planned on 31.12.2015.

## NOTE 7.

### INVESTMENT PROPERTIES

Investment properties are presented below:

Table no 12

#### INVESTMENT PROPERTY AS AT 31.12.2014

	as at 31.12.2014	as at 31.12.2013
<b>Opening balance</b>	<b>1 283 386</b>	<b>1 572 759</b>
Disposal	-	(289 252)
Depreciation	(34 469)	(121)
<b>Closing balance</b>	<b>1 248 917</b>	<b>1 283 386</b>

**NOTE 8.****INVESTMENTS IN ASSOCIATES**

Investments in associates are presented below:

Table no 13

**INVESTMENTS IN ASSOCIATES AND JOINT VENTURES AS AT 31.12.2014**

	as at 31.12.2014	as at 31.12.2013
<b>Opening balance</b>	36 167 498	36 758 854
<b>Decrease in reporting period:</b>	<b>(36 167 498)</b>	<b>(591 356)</b>
Sale of the associate interest in	(35 401 781)	-
losses of associates other	(330 549)	(591 356)
decrease	(435 168)	-
<b>Closing balance</b>	<b>-</b>	<b>36 167 498</b>

Decrease of investments in affiliates through disposal of an affiliate is due to sale of shares in RE Income Closed Investment Fund.

**NOTE 9.****OTHER LONG-TERM INVESTMENTS**

Other investments are presented below:

Table no 14

**OTHER LONG-TERM INVESTMENTS AS AT  
31.12.2014**

	as at 31.12.2014	as at 31.12.2013
Loans granted to associates	-	747 500
Shares	531 570	733 962
Other long-term financial assets	-	94 000
	<b>531 570</b>	<b>1 575 462</b>

**NOTE 10.****LONG-TERM RECEIVABLES**

Long-term receivables are presented below:

Table no 15

**LONG-TERM RECEIVABLES AS AT  
31.12.2014**

	as at 31.12.2014	as at 31.12.2013
Security deposits on marketing agreements	-	3 145 561
Security deposits on rental agreements	2 550 845	2 417 436
Other long-term receivables	260 202	368 202
	<b>2 811 047</b>	<b>5 931 200</b>

**NOTE 11.****INVENTORIES**

Inventories are presented below:

Table no 16

**INVENTORIES AS AT 31.12.2014**

	as at 31.12.2014	as at 31.12.2013
Merchandise	1 285 859 514	1 017 512 773
Materials	252 511	309 355
<b>Total inventories, including:</b>	<b>1 286 112 026</b>	<b>1 017 822 128</b>
- carrying amount of inventory deposits securing payments of liabilities	547 500 000	330 000 000

Table no 17

**ALLOWANCE FOR INVENTORIES IN THE PERIOD FROM 01.01 TO 31.12.2014**

	for the period from 01.01.2014 to 31.12.2014	for the period from 01.01.2013 to 31.12.2013
<b>Opening balance</b>	<b>13 390 658</b>	<b>11 446 522</b>
- increase through business combination	4 978 759	-
- increase in the allowance during the period	10 345 205	7 645 319
- write-offs during the period	(5 820 211)	(5 701 183)
<b>Closing balance</b>	<b>22 894 411</b>	<b>13 390 658</b>

**NOTE 12.****TRADE AND OTHER RECEIVABLES**

Trade receivables and other receivables are presented below:

Table no 18

**TRADE RECEIVABLES AND OTHER RECEIVABLES AS AT 31.12.2014**

	as at 31.12.2014	as at 31.12.2013
<b>Trade receivables</b>	<b>1 524 373 766</b>	<b>1 416 521 310</b>
Credit sales	883 010 171	856 571 545
Receivables from suppliers*	599 596 027	524 256 958
Factoring	29 177 151	24 566 656
Franchise fees	14 222 278	8 560 367
Other trade receivables	53 928 743	42 566 982
Allowance for trade receivables	(55 560 604)	(40 001 198)
<b>Current tax assets</b>	<b>23 097 698</b>	<b>12 048 181</b>
<b>Other receivables</b>	<b>185 262 104</b>	<b>213 546 440</b>
VAT settlements	129 508 992	178 610 217
Receivables subject to legal proceedings	69 247 613	64 512 700
Receivables from employees Insurance	1 890 474	5 004 133
claims receivables Receivables from	2 315 202	2 275 635
sales fixed assets Other receivables	1 413 917	-
Allowance for other bad debts	48 199 365	24 369 311
	(67 313 459)	(61 225 555)
<b>Total receivables, including:</b>	<b>1 732 733 569</b>	<b>1 642 115 932</b>
- short-term	1 732 733 569	1 642 115 932

\* these receivables are for vendor transactions which, according to the characteristics of these transactions, are presented in the consolidated income statement as sales revenues or reduction of value of goods sold. These receivables are mostly repaid by customers through payments by cash.

**NOTE 13.****OTHER SHORT-TERM INVESTMENTS**

Other short-term investments are presented below:

Table no 19

**OTHER SHORT-TERM INVESTMENTS AS AT**

**31.12.2014**

	as at 31.12.2014	as at 31.12.2013
Loans granted to associate	-	3 004 065
Other financial assets	-	38 308
	<b>-</b>	<b>3 042 373</b>

**NOTE 14.****SHORT-TERM PREPAYMENTS**

Short-term prepayments are presented below:

Table no 20

**SHORT-TERM PREPAYMENTS AS AT**

**31.12.2014**

	as at 31.12.2014	as at 31.12.2013
Alcohol licences	4 652 414	6 619 159
Rents	2 888 104	3 617 026
Central contracts, regional contracts and private label	3 337 772	3 401 126
Media	445 146	-
Insurances	3 365 308	1 810 549
Tolls, vignette	-	47 016
Media	-	44 598
Annual fees, subscriptions	19 588	17 992
Software	90 196	-
Other prepayments	4 634 477	1 744 931
	<b>19 433 004</b>	<b>17 302 396</b>

**NOTE 15.****CASH AND CASH EQUIVALENTS**

Cash and cash equivalents are presented below:

Table no 21

**CASH AND CASH EQUIVALENTS AS AT**

31.12.2014	as at 31.12.2014	as at 31.12.2013
Cash at bank	36 231 136	23 416 496
Cash on hand	3 664 921	2 264 068
Cash in transit	31 765 475	35 248 886
Cash on deposits	15 246 631	41 486 223
Others	5 000	103 025
<b>Total cash</b>	<b>86 913 164</b>	<b>102 518 699</b>

**NOTE 16.****ASSETS CLASSIFIED AS HELD FOR SALE**

In 2014, the Group reclassified tangible assets previously recognized as designed for sale.

Table no 22

**ASSETS CLASSIFIED AS HELD FOR SALE**

	as at 31.12.2014	as at 31.12.2013
Tangible fixed assets	-	27 245 549

With regard to the prolonging process of seeking buyers for real estate, the Group withdrew from the intention to sell.

**NOTE 17.****CASH POOLING SYSTEM**

On 2 February 2009 Eurocash Group companies entered into a cash pooling agreement with daily credits with ING Bank Śląski S.A. ("Cash Pool"). The objective of this agreement is to implement efficient management of joint financial liquidity within a group of bank accounts.

Each Group company has a separate current bank account. Eurocash S.A. is the administrator of the overall scheme, which operates the following two accounts:

- *the main account* - within the group of accounts;
- *the main cash pooling account* - outside the group of accounts, where the consolidated balance of all accounts is mapped.

The DOLMA system is based on an offsetting mechanism. Offsetting is the final operation of each working day, consisting in transferring of all positive and negative balances from particular current accounts to the main cash pooling account, as per account balance. This operation is reversed at the beginning of the following working day.

Interest is charged on the amount outstanding on the main cash pooling account on the last day of each calendar month.

The Group presents the effect of its cash pooling scheme operation in net values, in order to demonstrate the economic justification of this liquidity management system.

**NOTE 18.**

**SHARE CAPITAL**

Share capital is presented below:

*Table no 23*

**SHARE CAPITAL AS AT 31.12.2014**

	as at 31.12.2014	as at 31.12.2013
Number of shares	138 680 636	138 427 636
Nominal value (PLN / share)	1	1
<b>Share capital</b>	<b>138 680 636</b>	<b>138 427 636</b>

As at 31 December 2014, share capital consisted of 138.680.636 ordinary shares, including:

- 127.742.000 A series ordinary shares to the bearer with the nominal value of 1 PLN each
- 3.035.550 B series ordinary shares to the bearer with the nominal value of 1 PLN each
- 2.929.550 C series ordinary shares to the bearer with the nominal value of 1 PLN each
- 830.000 D series ordinary shares to the bearer with the nominal value of 1 PLN each
- 1.414.900 E series ordinary shares to the bearer with the nominal value of 1 PLN each
- 537.636 F series ordinary shares to the bearer with the nominal value of 1 PLN each
- 997.000 G series ordinary shares to the bearer with the nominal value of 1 PLN each
- 941.000 H series ordinary shares to the bearer with the nominal value of 1 PLN each
- 253.000 I series ordinary shares to the bearer with the nominal value of 1 PLN each

The structure of shareholders with more than 5% of the total number of voting rights is presented below:

*Tabela nr 24 SHAREHOLDERS*

**STRUCTURE**

	31.12.2014				31.12.2013			
Shareholder	Number of shares	Share in share capital (%)	Number of votes	Share in total number of votes (%)	Number of shares	Share in share capital (%)	Number of votes	Share in total number of votes (%)
Luis Amaral (directly and indirectly by Politra B.V.)	60 615 240	43,71%	60 615 240	43,71%	60 615 240	43,79%	60 615 240	43,79%
Funds managed by Cartica Management	6 994 140	5,04%	6 994 140	5,04%	-	-	-	-
Funds managed by Coronation Assets Management (Pty) Limited	6 929 097	5,00%	6 929 097	5,00%	-	-	-	-

Changes in the initial capital were as follows:

Table no 25

**SHARE CAPITAL IN THE PERIOD FROM 01.01 TO 31.12.2014**

	for the period from 01.01.2014 to 31.12.2014	for the period from 01.01.2013 to 31.12.2013
Share capital at the beginning of the period	138 427 636	137 976 536
Increase of share capital in the period	253 000	451 100
Incentive programs for employees	253 000	451 100
Share capital at the end of the period	<b>138 680 636</b>	<b>138 427 636</b>

In 2014, 253.000 ordinary shares were issued due to exercising share options granted to key personnel of the Company under incentive schemes (2013: 451.100 shares). These options were exercised at prices ranging between PLN 8,89 and PLN 25,13 per share. All shares issued were fully covered with cash.

**Loss on valuation of hedging transactions**

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

**Dividend**

On 29 April 2014 Resolution No. 5 of the Annual General Meeting of Shareholders of the Parent Eurocash S.A. performed the share of financial results for 2013 in the amount of PLN 90.921.243.

The remaining part of net profit was allocated to supplementary capital of the Company.

In addition, part of retained earnings in the amount of PLN 18,680,556 was allocated to dividend.

Total value of dividend was at PLN 109,451,447 and it was paid by June 02, 2014.

**NOTE 19.  
SHARE OPTIONS**

Treasury share options are presented below:

Table no 26

**OPTIONS FOR SHARES IN THE PERIOD FROM 01.01 TO 31.12.2014**

	Number of options	Weighted average exercise prices (PLN/share)
Existing at the beginning of the reporting period	1 149 500	33,22
Exercised in the reporting period	(253 000)	9,49
Expired in the reporting period Existing	(23 000)	7,87
at the end of the reporting period	<b>873 500</b>	<b>37,48</b>
including:		
Exercisable at the end of the period	24 000	19,04

1. Based on the Resolution 18 of the General Meeting of Eurocash S.A. dated 28 June 2007 on the Fourth and the Fifth Employee Incentive and Premium Programmes for 2007 and 2008, a decision was made to issue G series and H series shares under an Incentive Programme for managing staff, supervisory staff and key personnel of Eurocash S.A.

Eurocash S.A. will issue a total of 81,600 registered bonds in two series:



- 40,800 F series registered bonds with a nominal value of PLN 0.01 each, with rights of subscription for G series ordinary bearer shares before the shareholders
- 40,800 G series registered bonds with a nominal value of PLN 0.01 each, with rights of subscription for H series ordinary bearer shares before the shareholders.

The bonds are zero-interest bonds.

One F series bond carries the preemptive right to subscribe and take up 25 G series shares.

One G series bond carries the preemptive right to subscribe and take up 25 H series shares.

A list of employees classified as Pre-Authorized to receive the F series bonds was approved based on the Resolution of the General Meeting of Eurocash S.A. dated 9 June 2008. Through Resolution no. 20 of the Ordinary General Meeting dated 2 2010, the list of employees initially authorized to acquire F bonds was corrected. This correction did not give rise to any revaluation or any other change to the terms and conditions of the Fourth Incentive Programme.

A list of employees qualified as Pre-Authorized to receive the G series bonds was approved based on the Resolution of the General Meeting of Eurocash S.A. dated 25 May 2009.

The vesting condition entitling the employees to receive G series share options is 3 years employment period starting from 1 December 2007. The final list of Authorized Persons entitled to receive "F" Bonds was determined through a Resolution of the Supervisory Board dated 23 November 2010.

Through a Resolution of the Supervisory Board dated 23 November 2010, the issue price of G Shares was determined as PLN 9.78.

The vesting condition entitling the employees to receive H series share options is 3 years employment period starting from 1 December 2008.

Through a Resolution of the Supervisory Board dated 23 November 2011, the issue price of H Shares was determined as PLN 8.89.

Bondholders of F series are entitled to subscribe and take up G series shares with the preemptive right before the shareholders of the Company during the period from 1 January 2011 to 31 December 2013.

Bondholders of G series are entitled to subscribe and take up G series shares with the preemptive right before the shareholders of the Company during the period from 1 January 2012 to 31 December 2014.

The Company valued the incentive program for the F series bonds at PLN 4,493.8 thousand. This value was settled for a 3 year period starting from 1 January 2008. After adjustments related to the resignation likelihood factor for employees covered by the Fourth Incentive Program, the overall cost of the program as at 31 December 2009 is determined as PLN 4,351.9 thousand.

The Company valued the incentive program for the G series bonds at PLN 3,438.7 thousand. This value has been settled for a 3 year period starting from 1 January 2009.

During the period from January 1, 2011 to December 31, 2011, 538.375, during the period from January 1, 2012 to December 31, 2012, 155.325 and during the period from January 1, 2013 to December 31, 2013, 303.300 ordinary Series G shares were taken up when Series F registered bonds were exercised. These shares were taken up at PLN 9.78 per share, and the market price of Eurocash S.A. shares quoted at the Warsaw Stock Exchange ranged from PLN 21.00 to PLN 65.64 per share. The average share price during the period was PLN 39.56 per share.

By December 31, 2013 was not used 920 bonds giving the right to subscribe for 23.000 of shares. They may be used by the end of the Exercise Period, that is, before December 31, 2013. On 31 December 2013 the subscription bearer shares of Series G was completed.

During the period from January 1 to December 31, 2012, 793.200 ordinary Series H shares were taken up; during the period from January 1 to December 31, 2013, 147,800 such shares were taken up, and during the period from January 1

to December 31, 2014, 70,000 of such shares were taken up in the course of exercising Series G registered bonds. These shares were taken up at PLN 8.89 per share, and the market price of Eurocash S.A. shares quoted at the Warsaw Stock Exchange ranged from PLN 28.30 to PLN 65.64 per share. The average share price during the period was PLN 45.45 per share.

Until December 31, 2014, 360 Series G bonds authorizing to take up 9,000 Series H shares were left unexercised. They could be exercised by the end of the Option Exercise Term, i.e. by December 31, 2014.

**2.** Through Resolution of the Ordinary General Meeting of Shareholders of Eurocash S.A. 16 of June 2, 2010 concerning the Seventh Employee Incentive and Premium Programmes for 2010, a decision was made to issue Series I shares under an Incentive Programme for managing staff, supervisory staff and key personnel of Eurocash S.A. and Eurocash S.A. Group.

The programme is implemented in relation to the Company's intention to continue the incentive programmes of the preceding years, designed for members of managing staff, officers and key personnel for Eurocash and Eurocash Group, and to provide grounds to enable distinguished employees to take up shares in the Company as a bonus.

With respect to the Seventh Incentive and Bonus Programme for Employees for 2010, the Company will issue 7,900 (seven thousand nine hundred) registered Series H Bonds with a nominal value of PLN 0.01 (one grosz) each, of which each shall carry the right to subscribe and take up 25 (twenty-five) ordinary Series I bearer shares with priority before the Company's shareholders.

The total nominal value of the Series H Bonds issue is PLN 79 (seventy-nine).

The bonds are zero-interest bonds.

Series H bonds will be bought by the Company on January 02, 2015 through payment of an amount in cash corresponding to the nominal value of the Bonds.

Series H shares will not be documentary bonds. Title from the Bonds will arise at the time of registration in the Bonds registry by a bank or brokerage house and shall be vested in the person named therein as the holder.

The only Eligible Persons to buy all or part of Series H Bonds shall be the members of managing staff, officers and key personnel of Eurocash and Eurocash Group, who have been employed and working for a period of 3 years starting December 1, 2010. A list of persons qualified as Pre-Authorized to receive the Series H bonds was approved through a Resolution of the General Meeting of Shareholders on June 13, 2011. The final list of Authorized Persons entitled to received Series H Bonds was determined through a Resolution of the Supervisory Board of November 27, 2013.

Through Resolution of the Supervisory Board of November 27, 2013, the issue price of Series I Shares was determined as PLN 25.13.

Series H bondholders are entitled to subscribe and to take up Series I Shares with priority before the shareholders of the Company during the period from January 1, 2014 to December 31, 2014.

During the period from January 1 to December 31, 2004, 183,000 series I ordinary shares were taken up.

The Group determined the value of the incentive scheme for the series H bonds as PLN 1,507.0k. This value is accounted for starting January 1, 2011 for a term of 3 years.

Until December 31, 2014, 600 Series H bonds authorizing to take up 15,000 Series I shares were left unexercised. They could be exercised by the end of the Option Exercise Term, i.e. by December 31, 2014.

**3.** By the Resolution of the Annual General Meeting Eurocash S.A. No. 3 of November 26, 2012 on the Eighth, Ninth and Tenth Motivation and Reward Program for Employees for the years 2012, 2013 and 2014, it was decided to issue shares of Series M, Series N and O Series under the Motivation program for managers, executives and essential persons to the business of the Company and the Group Eurocash S.A.

The program is implemented in conjunction with the Company's intention to continue motivation programs for the earlier years for managers, executives essential persons to the business of the Company and the Group Eurocash and lay the foundations to enable outstanding employees to acquire shares in the Company as part of the premium.

The Company will issue a total of 102,000 registered bonds in three series:

- 34,000 registered Series I bonds with nominal value of PLN 0,01 each, with the right to subscribe and acquire 25 Series M shares with priority over the shareholders of the Company,
- 34,000 registered Series J bonds with nominal value of PLN 0,01 each, with the right to subscribe and acquire 25 Series N shares with priority over the shareholders of the Company,
- 34,000 registered Series K bonds with nominal value of PLN 0,01 each, with the right to subscribe and acquire 25 Series O shares with priority over the shareholders of the Company.

The bonds are zero-interest bonds.

Persons entitled to purchase all or part of the Series I bonds be will only managers, executive officers and persons essential to the business of the Company and the Group Eurocash, employees performing their duties in a period of 3 years from 1 January 2012.

The list of pre-qualified for persons eligible to purchase Series I bonds has been approved by resolution No 20 of the General Meeting on 20 May 2013.

Final List of Eligible Persons will be determined by resolution of the Supervisory Board, and if it will include the persons awarded, will be further approved by the General Assembly, no later than 5 January 2015.

Persons entitled to purchase all or part of the Series J bonds be will only managers, executive officers and persons essential to the business of the Company and the Group Eurocash, employees performing their duties in a period of 3 years from 1 January 2013. Final List of Eligible Persons will be determined by resolution of the Supervisory Board, and if it will include the persons awarded, will be further approved by the General Assembly, no later than 5 January 2016.

Persons entitled to purchase all or part of the Series K bonds be will only managers, executive officers and persons essential to the business of the Company and the Group Eurocash, employees performing their duties in a period of 3 years from 1 January 2014. Final List of Eligible Persons will be determined by resolution of the Supervisory Board, and if it will include the persons awarded, will be further approved by the General Assembly, no later than 5 January 2017.

Holders of the Series I Bonds shall be entitled to subscribe for and acquire Series M Shares in priority to shareholders of the Company for the period from 1 February 2015 to 31 January 2017.

Holders of the Series J Bonds shall be entitled to subscribe for and acquire Series N Shares in priority to shareholders of the Company for the period from 1 February 2016 to 31 January 2018.

Holders of the Series K Bonds shall be entitled to subscribe for and acquire Series O Shares in priority to shareholders of the Company for the period from 1 February 2017 to 31 January 2019.

The issue price per Series M Shares will amount to PLN 38.

The issue price of a share of Series N will be determined by the Board under the assumption that the value should be equal to PLN 38, adjusted for the rights associated with the shares. The issue price of the Series N will be announced in the current report no later than 21 days before the beginning of the ninth Exercise Period.

The issue price of a share of Series O will be determined by the Board under the assumption that the value should be equal to PLN 38, adjusted for the rights associated with the shares. The issue price of the Series O will be announced in the current report no later than 21 days before the beginning of the ninth Exercise Period.

The Group valued the Incentive Program for the eighth series bonds in the amount of PLN 19,764,000 . This value is accounted from 1 January 2013 for a period of 26 months.

Until 31 December 2014 have not been used 34,000 bonds and giving the right to subscribe for 850,000 shares of series I.

Series J Bonds will be able to be offered through referrals proposal to acquire (and thus the issuance of the Series J is reached, and consequently, Ninth and Bonus Incentive Program for Employees for 2013 will be implemented) only if the total fulfillment of the following conditions:

- Approval by the Annual General Meeting of the Group's consolidated annual report of the Company for the year 2012, and
- Achievements in 2013 by the Group consolidated EBITDA (understood as operating profit plus depreciation and amortization) of at least PLN 565.000.000, that is at the level of consensus estimates published by Bloomberg.

Due to the fact that the above condition relating to consolidated EBITDA was not completed, Ninth Bonus Incentive Program has not been implemented.

Bonds Series K will be able to be offered through referrals proposal to acquire (and thus the issuance of the Series K reached, and consequently, Tenth and Bonus Incentive Program for Employees for 2014 will be implemented) only if the total fulfillment of the following conditions:

- Approval by the Annual General Meeting of the Group's consolidated annual report of the Company for the year 2013, and
- Achievements in 2014 by the Group consolidated EBITDA (understood as operating profit plus depreciation and amortization) of at least PLN 638.000.000, that is at the level of consensus estimates published by Bloomberg.

Because the above requirement concerning consolidated EBITDA was not fulfilled, the Tenth Incentive and Bonus Program was not implemented.

Share option programs are valued using the Black-Scholes model. Details of each programme valuation are presented below.

Table no 27  
**OPTION VALUATION AS AT  
31.12.2014**

	3 Share option programme	4 Share option programme	5 Share option programme	7 Share option programme	8 Share option programme
Risk-free rate of return	4,78%	6,47%	5,82%	5,00%	2,34%
Volatility	34,89%	41,83%	43,50%	29,27%	34,93%
Option period (in years)	2,52	2,57	2,52	2,56	1,70
Exercise price	8,17	10,75	9,93	26,22	38,00
Base price	10,75	12,20	10,45	28,80	61,00
Number of options	1 596 775	1 020 000	1 020 000	197 500	850 000
Employee turnover ratio	0%	4%	7%	6%	6%
Total cost	6 600 176	4 493 777	3 438 664	1 506 952	19 764 084

Total costs of share option programs charged to the consolidated income statement of the Group for 2014 amounted to PLN 12.162.513 (2013: PLN 7.090.345).

**NOTE 20.****PROVISIONS AND ACCRUALS**

Provisions and accruals are presented below:

Table no 28

**PROVISIONS AND ACCRUALS IN THE PERIOD FROM 01.01.2013 TO 31.12.2014**

	Employee benefits	Accrual for costs of transport	Accrual for advertising costs	Accrual for expected costs related to companie from Tradis Group	Accrual for logistic costs	Accrual for location liquidation costs	Accrual for agents' commissions
<b>Provisions and accruals as at 01.01.2013</b>	<b>43 580 882</b>	<b>1 814 915</b>	<b>15 103 301</b>	<b>26 249 534</b>	<b>263 701</b>	<b>19 007 352</b>	<b>824 021</b>
Increases	459 791 799	287 216 910	326 332 799	-	-	-	35 162 964
Decreases	(447 838 836)	(287 123 229)	(310 742 772)	(26 249 534)	(263 701)	(19 007 352)	(34 830 894)
<b>Provisions and accruals as at 31.12.2013, including:</b>	<b>55 533 846</b>	<b>1 908 595</b>	<b>30 693 329</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1 156 091</b>
- short-term	52 435 993	1 908 595	30 693 329	-	-	-	1 156 091
- long-term	3 097 852	-	-	-	-	-	-
<b>Provisions and accruals as at 01.01. 2014</b>	<b>55 533 846</b>	<b>1 908 595</b>	<b>30 693 329</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1 156 091</b>
Increases	65 824 034	37 091 268	244 162 639	-	-	-	39 528 710
Decreases	(55 533 846)	(35 613 491)	(243 085 912)	-	-	-	(39 771 331)
<b>Provisions and accruals as at 31.12.2014, including:</b>	<b>65 824 034</b>	<b>3 386 371</b>	<b>31 770 055</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>913 470</b>
- short-term	62 581 131	3 386 371	31 770 055	-	-	-	913 470
- long-term	3 242 903	-	-	-	-	-	-

Table no 28

**PROVISIONS AND ACCRUALS IN THE PERIOD FROM 01.01.2013 TO 31.12.2014 (continued)**

	Provision for interests	Provision for non-profitable contracts	Accrual for costs of media	Provision for other costs	Other	Total
<b>Provisions and accruals as at 1 January 2013</b>	<b>25 348 699</b>	<b>13 724 850</b>	<b>5 133 292</b>	<b>3 968 176</b>	<b>36 928 527</b>	<b>191 947 249</b>
Increases	5 551 731	-	51 943 910	-	169 247 863	1 335 247 976 (3
Decreases	(15 586 676)	(13 724 850)	(51 529 974)	968 176)	(176 706 301)	(1 387 572 294)
<b>Provisions and accruals as at 31 December 2013, including:</b>	<b>15 313 754</b>	<b>-</b>	<b>5 547 229</b>	<b>-</b>	<b>29 470 089</b>	<b>139 622 931</b>
- short-term	15 313 754	-	5 547 229	-	29 470 089	<b>136 525 079</b>
- long-term	-	-	-	-	-	<b>3 097 852</b>
<b>Provisions and accruals as at 1 January 2014</b>	<b>15 313 754</b>	<b>-</b>	<b>5 547 229</b>	<b>-</b>	<b>29 470 089</b>	<b>139 622 931</b>
Increases	35 991 953	-	56 903 828	-	138 434 690	617 937 122
Decreases	(38 490 820)	-	(56 336 435)	-	(132 949 437)	(601 781 272)
<b>Provisions and accruals as at 31 December 2014, including:</b>	<b>12 814 887</b>	<b>-</b>	<b>6 114 621</b>	<b>-</b>	<b>34 955 343</b>	<b>155 778 781</b>
- short-term	12 814 887	-	6 114 621	-	34 697 843	152 278 378
- long-term	-	-	-	-	257 500	3 500 403

Table no 29

**PROVISIONS AS AT 31.12.2014**

	as at 31.12.2014	as at 31.12.2013
Employee benefits	65 824 034	55 533 846
Accrual for advertising costs	31 770 055	30 693 329
Accrual for intrests	12 814 887	15 313 754
Accrual for costs of media	6 114 621	5 547 229
Accrual for ligitations	6 003 544	4 677 344
Accrual for advisory and audit	2 708 619	3 037 237
Provision for payment of bonuses for franchisees	4 209 612	2 855 203
Accrual for costs of transport	3 386 371	1 908 595
Accrual for rental costs	3 424 087	1 392 109
Accrual for fuel costs	-	1 364 651
Accrual for agent's commisions	913 470	1 156 091
Accrual for IT modernist works	2 052 072	973 919
Other provisions and accruals	16 557 409	15 169 625
	<b>155 778 782</b>	<b>139 622 931</b>
- long-term	3 500 403	3 097 852
- short-term	152 278 379	136 525 079

**Provisions and liabilities for employee benefits**

Provisions and liabilities for employee benefits include provision for retirement benefits 3.639.816 PLN (the remaining part mainly pay liabilities and provisions for holidays).

Provision for retirement benefits was calculated using the actuary. The actuarial estimations include discount rate of 2.0%, 3.0% wage decrease.

**Provision for the costs of advertising and marketing**

Provision for advertising and marketing costs include mainly provisions related to the allocation of the marketing services provided by the receivers.

It is expected that these provisions will be realized within 12 months from 31 December 2014.

**Provision for interest**

Provision applies to the estimated costs associated with unpaid liabilities for which contractual dates passed as at 31 December 2014.

It is expected that the reserve will be completed within 12 months from 31 December 2014.

**NOTE 21.**  
**TRADE AND OTHER PAYABLES**

Trade and other payables are presented below:

*Table no 30*

**TRADE AND OTHER PAYABLES AS AT 31.12.2014**

	as at 31.12.2014	as at 31.12.2013
<b>Trade payables</b>	<b>3 063 030 189</b>	<b>2 889 702 742</b>
Liabilities due to purchase of goods	2 861 794 375	2 758 579 433
Liabilities due to services received	201 235 814 3	131 123 309
<b>Current tax liabilities</b>	<b>521 205 95</b>	<b>19 939 364</b>
<b>Other liabilities</b>	<b>760 966 2</b>	<b>160 740 480</b>
VAT settlements	888 496 21	100 852 388
Liabilities due to purchases of assets	133 549 24	26 146 826
Liabilities due to social securities	662 451 5 799	23 609 364
Liabilities due to taxes and insurances	337 316 035	5 593 050
Liabilities in relation to acquisitions	2 414 914 1	316 035
Liabilities from deposit	302 997 37	-
Liabilities due to payroll	243 187	-
Other payables		4 222 818
<b>Total payables, including:</b>	<b>3 162 312 360</b>	<b>3 070 382 586</b>
- long-term	2 414 914	251 000
- short-term	3 159 897 446	3 070 131 587



**NOTE 22.  
LOANS AND BORROWINGS**

Loans and borrowings are presented below:

Table no 31

**LOANS AND CREDITS AS AT 31 DECEMBER 2014**

	Credit destination	Liability amount	Interest rate	Costs for the period from 01.01.2014 to 31.12.2014
ING Bank Śląski S.A.	overdraft for financing of current activities	168 108 532	WIBOR + bank's margin	6 633 970
BNP Paribas Bank	overdraft for financing of current activities	36 755 106	WIBOR + bank's margin	5 226 377
MBank S.A.	overdraft for financing of current activities	16 309 579	WIBOR + bank's margin	5 226 377
ING Bank Śląski S.A. and Bank Zachodni WBK S.A.	Investment long-term credit for the acquisition of Tradis	83 906 521	WIBOR + bank's margin	7 581 104
PKO S.A.	overdraft for financing of current activities	184 553 536	WIBOR + bank's margin	131 130
MBank S.A.	overdraft for financing of current activities	95 000 000	WIBOR + bank's margin	366 904
PKO S.A.	Kredyt na finansowanie bieżącej działalności	109 960 685	WIBOR + bank's margin	-
Total loans and borrowings		<b>694 593 959</b>		<b>25 165 863</b>
- long-term		-		
- short-term		694 593 959		

In accordance to the credit agreements, the Group is obligated to maintain certain financial ratios at a defined level and for the activity of indicated in the contracts framework. During the reporting period the Group performed all the terms of loan agreements and there was no case of violation. What is more, according to the credit agreements the Group has issued the securities, details of which are expanded in Note 37.

On August 07, 2014, a credit agreement was concluded between KDWT S.A. (currently Eurocash Serwis Sp. z o.o.) and Bank Polska Kasa Opieki S.A. of Warsaw, Poland, for a credit facility up to the amount of PLN 110,000,000. Under the aforementioned Credit Facility Agreement, the Bank shall grant an overdraft facility to the Company up to the amount of PLN 110,000,000. Interest rate on that facility is variable, at WIBOR plus the bank's margin.

With regard to the Credit Facility Agreement, Eurocash S.A. issued a credit surety.

On December 19, 2014, a Credit Facility Agreement up to the amount of PLN 200,000,000 was made between Eurocash and Bank Polska Kasa Opieki S.A. Under the aforementioned Credit Facility Agreement, the Bank shall grant an overdraft facility to the Company up to the amount of PLN 200,000,000. Interest rate on that facility is variable, at WIBOR plus the bank's margin.

With regard to the Credit Facility Agreement, KDWT Sp. z o.o. (currently Eurocash Serwis Sp. z o.o.) granted a surety as a credit collateral, and a lien was set up on inventories.

#### OTHER FINANCIAL LIABILITIES

Other financial liabilities are presented below:

Table no 32

##### FINANCIAL LIABILITIES AS AT 31.12.2014

	as at 31.12.2014	as at 31.12.2013
Liabilities arising from the issue of bonds	182 000 000	140 000 000
Finance lease liabilities	21 680 890	17 923 119
Liabilities related to financing of franchisees	29 177 151	24 566 656
Valuation of hedging instruments	11 774 474	
	<b>244 632 515</b>	<b>182 489 775</b>
- long-term	162 607 978	154 927 670
- short-term	82 024 537	27 562 105

On June 20, 2013, Eurocash issued bonds with a total nominal value of PLN 140 million within the framework of the bonds program, up to PLN 500 million. The rate of interest for the Bonds shall be determined on the basis of WIBOR for six-month deposits plus the bank's margin. Bonds redemption date is June 20, 2018. The bonds were secured with sureties granted by subsidiaries, up to the amount of PLN 168m. Bonds liabilities are presented in the Group's statement of financial position, under Long-term payables.

In addition, by the end of 2014, Eurocash S.A. issued short-term bonds with a total value of PLN 42 million, within the framework of the short-term bonds program up to the amount of 500 million. The rate of interest for the Bonds shall be determined on the basis of WIBOR for one-month and three-month deposits plus margin. The maximum time limit for redemption of outstanding bonds is March 18, 2015. The bonds were secured with sureties granted by subsidiaries, up to the amount of PLN 50.4m. Bonds liabilities are presented in the Group's statement of financial position, under Short-term payables.

In accordance with the signing of the agreement of the bond issue, the Group is required to maintain certain financial results on defined level. What is more, in connection with the agreement of bond issue, Company granted the guarantee with a maximum of 120% of the nominal value of each Bond.

## FINANCE LEASE

Table no 33

## FINANCE LEASE AS AT 31.12.2014

	as at 31.12.2014	as at 31.12.2014	as at 31.12.2013	as at 31.12.2013
	minimum lease payments	present value of minimum lease payments	minimum fees	present value of minimum lease payments
<i>Future minimum lease payments due to finance lease agreements</i>				
Less than one year	5 685 703	5 183 298	4 133 719	2 995 450
Between one and five years	16 927 338	16 376 392	16 356 884	14 670 637
More than five years	124 820	121 200	270 740	257 033
<b>Total future minimum lease payments due to finance lease agreements</b>	<b>22 737 861</b>	<b>21 680 890</b>	<b>20 761 344</b>	<b>17 923 119</b>
Finance costs	1 056 971	X	2 838 224	X
<b>Present value of minimum lease payments due to finance lease agreements</b>	<b>21 680 890</b>	<b>21 680 890</b>	<b>17 923 119</b>	<b>17 923 119</b>

## OPERATING LEASE

The Group recognized operating lease contracts concerning lease or rental of premises and vehicles and others under which the leased assets can be used by the lessee in exchange for a charge or a series of charges and no transfer of risk or benefits arising from the ownership of an asset is made.

The contracts relate lease and rental of space for commercial activities such as sales of groceries, cigarettes, alcohols, household chemicals and non-food merchandise. The Group has the contracts relate to the use of storage space for logistics and transport purposes, as well as office space for administrative activities of headquarters' employees. Moreover, the Group recognized an operating lease contracts related to lease of vehicles used by the lessee in the current operations.

For contracts relating to wholesale and retail space, the price is defined per 1 square meter. Prices are adjusted by annual rate of inflation published by the Central Statistical Office, fluctuations of property tax charges, fluctuations of perpetual usufruct charges, and fluctuations of local charges applicable to leased/rented properties. The final amount payable is a product of the number of square meters of the given space multiplied by the price per square meter.

Regarding the lease of storage and office space at the distribution center in Komorniki, two fixed monthly lease charges were established. The first charge is valid for the first two years of contract and the other charge is valid in next 14 years thereafter.

Term and termination conditions stated in the contracts say that unless either Party notifies the other Party of the contract of its decision not to extend the contract during the 12 months period preceding date of the termination of the contract, then the contract shall be extended automatically for the next period (the same as per the original contract).

Specification of minimum operating lease charges is presented below:

Table no 34

### OPERATING LEASE AGREEMENTS AS AT 31.12.2014

	as at 31.12.2014	as at 31.12.2013
<i>Future minimum lease payments due to operating lease agreements</i>		
Less than one year Between	132 805 932	129 963 051
one and five years More than	344 141 384	304 480 399
five years	431 741 661	336 152 601
<b>Total future minimum lease payments due to operating lease agreements</b>	<b>908 688 978</b>	<b>770 596 051</b>

Operating lease payments for 2014 amounted to PLN 121.337.704,78 (2013: PLN 119.290.917).

**NOTE 23.  
INCOME TAX**

Income tax for the reporting period is presented below:

Table no 35

**INCOME TAX FOR THE PERIOD FROM 01.01 TO 31.12.2014 (main components)**

	for the period from 01.01.2014 to 31.12.2014	for the period from 01.01.2013 to 31.12.2013
<i>Income statement</i>		
<b>Current income tax</b>	<b>(15 502 684)</b>	<b>(59 214 922)</b>
Current income tax burden expense	(17 576 806)	(57 940 480)
Additional income tax related to previous years	2 074 122	(1 274 442)
<b>Deferred tax</b>	<b>(20 191 145)</b>	<b>54 146 520</b>
Due to temporary tax differences	(20 191 145)	54 146 520
<b>Total income tax</b>	<b>(35 693 829)</b>	<b>(5 068 402)</b>

Table no 36

**TAX RECONCILIATION FOR THE PERIOD FROM 01.01 TO 31.12.2014 (main components)**

	from 01.01.2014 to 31.12.2014	from 01.01.2013 to 31.12.2013
<b>Profit before tax</b>	<b>218 813 959</b>	<b>226 077 879</b>
Income tax calculated base on 19% income tax rate	(41 574 652)	(42 954 797)
Tax impact of temporary differences between the gross and tax base	(436 583)	-
Permanent tax differences	(6 193 355)	(6 572 682)
Deductible temporary differences not passing through the current tax	209 871	-
Adjustment of current tax of previous years	2 253 169	167 176
Deferred tax asset without an impact on current income tax	-	27 789 583
Reversal of allowance for deferred tax asstes related to trademarks Reversal of provision for potential losses related to aquisition of Eurocash Dystrybucja Sp. z o.o.	8 360 000	11 029 372
Other differences	1 687 720	618 446
<b>Income tax in income statement</b>	<b>(35 693 829)</b>	<b>(5 068 402)</b>
<b>Effective tax rate</b>	<b>16,31%</b>	<b>2,24%</b>

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

Deferred tax is presented below:

Table no 37

**DEFERRED TAX IN THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2014**

	Statement of financial position		Income statement		Business combinations		Statement of comprehensive income	
	as at	as at	for the period	for the period	for the period	for the period	for the period	for the period
	31.12.2014	31.12.2013	from 01.01.2014 to 31.12.2014	from 01.01.2013 to 31.12.2013	from 01.01.2014 to 31.12.2014	from 01.01.2013 to 31.12.2013	from 01.01.2014 to 31.12.2014	from 01.01.2013 to 31.12.2013
<i>Deferred tax liabilities</i>								
- difference between tax and carrying amount of fixed assets	58 890 584	52 087 656	6 802 928	(13 664 946)	-	-	-	-
- deferred income	45 407 879	29 866 511	15 541 367	5 876 832	-	-	-	-
- revenues from accrued interests	518 705	492 045	26 660	(58 071)	-	-	-	-
- financial lease liabilities	866 037	-	866 037	(173 882)	-	-	-	-
- unrealized foreign exchange differences	-	23 013	(23 013)	5 195	-	-	-	-
- income from contractual penalties unpaid	627 836	469 804	158 032	230 778	-	-	-	-
- difference between tax and accounting value of BATNA trademark	-	485 975	(485 975)	485 975	-	-	-	-
- compensations for purchased locations -	-	-	-	(855 000)	-	-	-	-
other	9 439 218	8 734 913	704 305	4 893 925	-	-	-	-
<b>Gross deferred tax liabilities</b>	<b>115 750 258</b>	<b>92 159 917</b>	<b>23 590 341</b>	<b>(3 259 194)</b>	-	-	-	-

Table no 37

**DEFERRED INCOME TAX IN THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2014**

(continued)

	Statement of financial position		Income statement		Business combinations		Statement of comprehensive income	
	as at	as at	for the period	for the period	for the period	for the period	for the period	for the period
	31.12.2014	31.12.2013	from 01.01.2014 to 31.12.2014	from 01.01.2013 to 31.12.2013	from 01.01.2014 to 31.12.2014	from 01.01.2013 to 31.12.2013	from 01.01.2014 to 31.12.2014	from 01.01.2013 to 31.12.2013
<i>Deferred tax assets</i>								
- bonuses	13 588 132	24 252 103	10 663 971	(7 059 431)	-	-	-	-
- allowance for inventories	2 834 659	2 371 093	(463 565)	3 020 540	-	-	-	-
- allowance for bad debts	16 005 781	15 358 600	(647 181)	(5 387 720)	-	-	-	-
- provision for assets	520 986	3 175	(517 811)	70 004	-	-	-	-
- tax losses from prior years	13 708 496	9 273 701	(4 434 795)	5 849 698	-	-	-	-
- tax profit from sale of fixed assets - holiday accrual	(345 562)	1 372 412	1 717 974	3 885 827	-	-	-	-
- accrual for employees' bonuses - unpaid payroll and social securities	3 389 637	2 977 476	(412 160)	(529 590)	-	-	-	-
	1 177 286	1 383 925	206 639	(821 276)	-	-	-	-
	2 683 562	2 311 074	(372 489)	54 838	-	-	-	-
- provision for retirement benefits, disability benefits, death benefits	627 414	602 178	(25 235)	4 819	-	-	-	-
- prepayments of wholesalers agency commission	162 616	96 333	(66 283)	(34 151)	-	-	-	-
- accrual for rental costs	746 284	195 603	(550 681)	155 382	-	-	-	-
- accrual for advertising costs	9 312 740	10 248 456	935 716	(5 007 155)	-	-	-	-
- accrual for costs of transport	643 411	283 520	(359 891)	21 031	-	-	-	-
- accrual for costs of media	949 496	867 615	(81 881)	432 229	-	-	-	-
- accrual for advisory	440 057	241 301	(198 756)	(88 963)	-	-	-	-
- provisions for legal disputes	1 638 485	540 866	(1 097 618)	285 800	-	-	-	-
- provisions for Amrest	(35 594)	23 695	59 289	1 055 106	-	-	-	-
- finance lease liabilities	2 321	3 105	784	5 162	-	-	-	-
- provisions for audit	18 905	114 577	95 672	(52 827)	-	-	-	-
- the difference between the carrying amount and the taxable value of property, plant and equipment and intangible assets	335 706	-	(335 706)	-	-	-	-	-
- unrealized exchange losses	3 217	20 713	17 495	(11 907)	-	-	-	-
- provision for postal and telecommunication costs	35 595	100 416	64 821	(51 203)	-	-	-	-

Table no 37

**DEFERRED INCOME TAX IN THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2014**

(continued)

	Statement of financial position		Income statement		Business combinations		Statement of comprehensive income	
	as at	as at	for the period	for the period	for the period	for the period	for the period	for the period
	31.12.2014	31.12.2013	from 01.01.2014 to 31.12.2014	from 01.01.2013 to 31.12.2013	from 01.01.2014 to 31.12.2014	from 01.01.2013 to 31.12.2013	from 01.01.2014 to 31.12.2014	from 01.01.2013 to 31.12.2013
<i>Deferred tax assets</i>								
- accrual for project logistics	-	-	-	50 103	-	-	-	-
- accruals for IT costs	-	-	-	465 121	-	-	-	-
- accrual for closed localisations	-	-	-	3 611 397	-	-	-	-
- provision for restructuring costs	3 240 697	-	-	-	(3 240 697)	-	-	-
- provision for loss-making contracts	1 743 266	-	(1 743 266)	2 607 722	-	-	-	-
- accrual for non-commercial costs	-	-	-	22 958	-	-	-	-
- accrual for interests accrued on debts	-	140 416	140 416	1 522 149	-	-	-	-
- accrued interest on trade payables	2 046 913	47 855	(1 999 058)	5 449 546	-	-	-	-
- accrual of interest on the liabilities	-	-	-	11 784	-	-	-	-
- accrued interest on loans and borrowings	232 037	19 691	(212 346)	578 961	-	-	-	-
- tax effect of the acquisition of enterprise	55 162 504	70 252 446	15 089 942	(69 005 493)	-	-	-	-
- valuation of hedging instruments	2 237 150	-	-	-	-	-	(2 237 150)	-
- other provisions and accruals	21 821 099	1 194 403	(18 853 118)	7 846 362	(1 773 578)	-	-	-
- contribution of trademarks to Limited Partnership Company	-	-	-	22 277 011	-	-	-	-
- bonus allocated to inventories	175 929	155 856	(20 073)	155 856	-	-	-	-
<b>Gross deferred tax assets</b>	<b>155 103 224</b>	<b>144 452 604</b>	<b>(3 399 196)</b>	<b>(28 610 314)</b>	<b>(5 014 275)</b>	<b>-</b>	<b>(2 237 150)</b>	<b>-</b>
Allowance of deferred tax asset	-	-	-	(22 277 011)	-	-	-	-
<b>Deferred tax assets</b>	<b>155 103 224</b>	<b>144 452 604</b>	<b>(3 399 196)</b>	<b>(50 887 325)</b>	<b>(5 014 275)</b>	<b>-</b>	<b>(2 237 150)</b>	<b>-</b>
Deferred income tax effect			20 191 145	(54 146 519)	(5 014 275)	-	(2 237 150)	-
<b>Net deferred tax liabilities</b>	<b>79 470 776</b>	<b>51 032 109</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Net deferred tax assets</b>	<b>118 823 742</b>	<b>103 324 796</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>



**NOTE 25.****OTHER LONG-TERM PREPAYMENTS**

Other long-term prepayments are presented below:

Table no 38

**OTHER LONG-TERM PREPAYMENTS AS AT**

**31.12.2014**

	as at 31.12.2014	as at 31.12.2013
Advisory services	-	156 050
IT licences	-	72 843
Promotional services	-	46 821
Trademark registration	-	37 179
Alcohol licences	2 885 046	-
Rental of premises - premium	213 587	-
Other prepayments	852 566	64 199
	<b>3 951 200</b>	<b>377 091</b>

**NOTE 26.****SALES IN THE REPORTING PERIOD**

Sales are presented below:

Table no 39

**SALE IN THE PERIOD FROM 01.01 TO**

**31.12.2014**

	for the period from 01.01.2014 to 31.12.2014	for the period from 01.01.2013 to 31.12.2013
Sale of goods	16 011 121 941	15 693 502 925
Sale of services	948 519 551	840 950 039
Sale of materials	4 203 810	3 079 529
<b>Total sale</b>	<b>16 963 845 302</b>	<b>16 537 532 494</b>

**NOTE 27.**  
**COSTS BY TYPE**

Costs by type are presented below:

Table no 40

**COSTS BY TYPE IN THE PERIOD FROM 01.01 TO**

**31.12.2014**

	for the period from 01.01.2014 to 31.12.2014	for the period from 01.01.2013 to 31.12.2013
Depretiation	125 291 293	116 458 900
Materials and energy	118 887 348	124 583 110
External services	672 713 135	592 280 151
Taxes and charges	41 166 849	38 631 943
Salaries	514 914 820	503 846 109
Social security and other benefits	106 581 889	106 140 233
Other costs by type	33 093 061	36 249 620
<b>Costs by type</b>	<b>1 612 648 394</b>	<b>1 518 190 066</b>
including:		
Cost of services sold	120 824 740	126 186 708
Cost of goods sold	1 204 697 203	1 104 393 431
General and administrative expenses	287 126 450	287 609 927

**NOTE 28.**  
**OTHER OPERATING INCOME AND EXPENSES**

Other operating income and expenses are presented below:

Table no 41

**OTHER OPERATING INCOME AND EXPENSES THE PERIOD FROM 01.01 TO**

**31.12.2014**

	for the period from 01.01.2014 to 31.12.2014	for the period from 01.01.2013 to 31.12.2013
<b>Other operating income</b>	<b>57 987 332</b>	<b>79 514 595</b>
Reversal of provision for anticipated costs related to Tradis group companies	-	18 150 000
Penalties for suppliers	20 828 335	15 605 223
Other sales	12 428 935	10 044 603
Sub-lease of premises	6 826 319	7 321 136
Profit on sales of fixed assets	1 483 420	2 150 519
Inventory surplus	483 918	1 688 675
Compensation received	1 208 472	1 080 357
Revenus from transport services	205 082	373 127
Provision for slow-movers and damaged goods	130 506	170 750
Other operating income	14 392 345	22 930 206
<b>Other operating expenses</b>	<b>(91 275 830)</b>	<b>(75 559 710)</b>
Liquidation of damages and expired goods	(37 427 470)	(28 059 482)
Inventory shortages	(22 565 693)	(21 672 157)
Losses from disposals of property, plant and equipment	(1 796 854)	(4 382 323)
Allowance for bad debts	(10 208 615)	(6 388 961)
Allowance for inventory	(4 922 792)	(2 457 615)
Paid penalties	(230 688)	(789 822)
Litigations	(164 487)	-
Other	(13 959 233)	(11 809 350)
<b>Net other operating expenses</b>	<b>(33 288 499)</b>	<b>3 954 886</b>

**NOTE 29.**  
**FINANCE INCOME AND COSTS**

Finance income and costs are presented below:

Table no 42

**FINANCE INCOME AND COSTS IN THE PERIOD FROM 01.01 TO**

**31.12.2014**

	for the period from 01.01.2014 to 31.12.2014	for the period from 01.01.2013 to 31.12.2013
<b>Finance income</b>	<b>17 764 222</b>	<b>12 287 481</b>
Revenues from discounts	5 731 557	5 962 883
Interest	4 948 550	4 169 492
Payment for a bank guarantee	210 000	-
Foreign exchange gains Other financial income	4 845	207 185
	6 869 269	1 947 921
<b>Finance costs</b>	<b>(85 791 241)</b>	<b>(71 303 836)</b>
Interest	(78 139 585)	(68 265 236)
Bank fees	(4 375 115)	-
Foreign exchange losses	(599 344)	(306 378)
Other finance costs	(2 677 198)	(2 732 223)
<b>Net finance expenses</b>	<b>(68 027 019)</b>	<b>(59 016 355)</b>

**NOTE 30.**  
**EARNINGS PER SHARE**

Earnings per share are presented below:

Table no 43

**EARNINGS PER SHARE FOR THE PERIOD FROM 01.01 TO**

**31.12.2014**

	for the period from 01.01.2014 to 31.12.2014	for the period from 01.01.2013 to 31.12.2013
<i>Earnings</i>		
Profit for the period attributable to the Owners of the Company	180 537 564	221 009 478
<i>Number of issued shares</i>		
Weighted average number of shares <b>Dilution</b>	138 528 195	138 188 296
<b>effect of potential number of shares:</b>		
Convertible bonds	92 513	533 650
Weighted average number of shares (to calculate diluted earnings per share)	138 620 708	138 721 946
<b>Earnings per share</b>		
- basic	1,30	1,60
- diluted	1,30	1,59

**Calculation of weighted average number of shares**

The weighted average number of shares determined in order to calculate the value of basic earnings per share is calculated as the weighted average number of ordinary shares outstanding during the reporting period.

**Calculation of weighted average diluted number of shares**

Weighted average number of shares determined for the purpose of calculating the value of diluted earnings per share includes the issued bonds convertible to shares and is calculated as the total of the weighted average number of ordinary shares plus the potential free of charge issue of ordinary shares .

Free of charge issue of ordinary shares means the difference between the number of ordinary shares which would be issued at the time of conversion of all diluting bonds convertible to ordinary shares, and the number of ordinary shares which would be issued at market value during the period.

The weighted average number of shares for the purpose of calculating diluted earnings per share was not adjusted for conversion of convertible bonds conducted during the periods following the date ending the reporting period on non-arm's length basis.

**Description of factors diluting the number of shares**

Earnings per share are diluted as a consequence of a realization of share option programs described in Note 19.

**NOTE 31.****BOOK VALUE PER SHARE**

Book value per share is calculated as a relation of book value to the number of shares as at the end of the reporting period.

Table no 44

**BOOK VALUE PER SHARE AS AT 31.12.2014**

	as at 31.12.2014	as at 31.12.2013
Book value	1 001 825 298	884 355 944
Number of shares (excl. treasury shares)	138 680 636	138 427 636
Diluted number of shares	139 554 136	139 577 136
Book value per share	7,22	6,39
Diluted book value per share	7,18	6,34

**NOTE 32.****REMUNERATION OF MEMBERS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD***Table no 45***REMUNERATION OF MEMBERS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD OF THE PARENT IN THE PERIOD FROM 01.01 TO 31.12.2014**

	Basic salary	Salary earned in related companies	Other benefits	Management share options	Total
<i>Remuneration of the Members of the Management Board</i>					
Luis Amaral	480 000	-	463 327	-	943 327
Rui Amaral	1 140 000	60 000	17 289	715 442	1 932 731
Arnaldo Guerreiro Pedro	1 020 000	-	28 956	357 721	1 406 677
Martinho Katarzyna	1 200 000	-	28 541	357 721	1 586 262
Kopaczewska Jacek	960 000	-	16 777	500 809	1 477 586
Owczarek Carlos Saraiva	960 000	-	28 537	214 633	1 203 169
	1 200 000	-	28 697	357 721	1 586 418
	<b>6 960 000</b>	<b>60 000</b>	<b>612 123</b>	<b>2 504 047</b>	<b>10 136 170</b>
<i>Remuneration of the Members of the Supervisory Board</i>					
Joao Borges de Assuncao	145 000	-	-	-	145 000
Eduardo Aguinaga de Moraes	120 000	-	-	-	120 000
Francisco José Valente Hipólito dos Santos	120 000	-	-	-	120 000
Hans Joachim Körber	120 000	-	-	-	120 000
Jacek Szwajcowski	100 000	-	-	-	100 000
	<b>605 000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>605 000</b>

**NOTE 33.****EMPLOYMENT**

Number of employees as at 31.12.2014 is presented below:

*Table no 46***NUMBER OF EMPLOYEES AS AT 31.12.2014**

	as at 31.12.2014	as at 31.12.2013
Number of employees	11 702	11 208
Number of full-time jobs	11 524	11 027

Employment structure as at 31.12.2014 is presented below:

*Table no 47***EMPLOYMENT STRUCTURE AS AT 31.12.2014**

	Wholesale discounts and distribution centres	Head office	Total
Number of employees	10 028	1 674	11 702
Number of full-time jobs	9 870	1 654	11 524

Data concerning employee turnover ratios as at 31.12.2014 is presented below:

Table no 48

**EMPLOYEE TURNOVER IN THE PERIOD FROM 01.01 TO**

**31.12.2014**

	for the period from 01.01.2014 to 31.12.2014	for the period from 01.01.2013 to 31.12.2013
Number of hired employees	4 534	3 207
Number of dismissed employees	(4 040)	(4 054)
	<b>494</b>	<b>(847)</b>

**NOTE 34.**

**DATA OF ITEMS NOT INCLUDED IN THE FINANCIAL STATEMENTS**

Table no 49

**CONTINGENCIES AS AT 31.12.2014**

	Beneficiary	Title	Currency	as at 31.12.2014	as at 31.12.2013
1.	BZ WBK ***	Surety for the obligations due to the "Franchise partners financing program" for the Franchisee Delkatesy Centrum	PLN	16 741 753	2 226 400
2.	ING Bank Śląski **	Surety of the bank guarantee for Prepaid Services Company for PayUp liabilities	PLN *	-	622 080
				<b>16 741 753</b>	<b>2 848 480</b>

\* - Guarantee in EUR is translated into PLNB at the average exchange rate of NBP:

as at 31.12.2014: 1 EUR = 4,2623 PLN,

as at 31.12.2013: 1 EUR = 4,1472 PLN.

\*\* nominal value

\*\*\* debt value as at balance sheet date

Table no 50

**OTHER BANK GUARANTEES AS AT 31.12.2014**

	The Issuer	Title	Currency	as at	as at
				31.12.2014	31.12.2013
1	ING Bank Śląski	Security for rent liabilities	PLN	821 100	858 176
2	ING Bank Śląski	Security for rent liabilities	PLN*	1 135 345	-
3	ING Bank Śląski	Security payments to suppliers	PLN	7 800 000	-
4	ING Bank Śląski	Security for excise duty	PLN	-	50 000
5	PKO BP S.A.	Security for agency agreement	PLN	500 000	-
6	PKO BP S.A.	Security for rent liabilities	PLN	5 622 851	5 596 553
7	PKO BP S.A.	Security for rent liabilities	PLN*	19 097 854	13 367 042
8	PKO BP S.A.	Security for organization of the distribution of tickets liabilities	PLN	-	200 000
9	PKO BP S.A.	Security for excise duty	PLN	1 200 000	1 000 000
10	PKO BP S.A.	Surety of the bank guarantee for Generalna Dyrekcja Dróg Krajowych i Autostrad	PLN	620 100	620 100
11	PKO BP S.A.	The liabilities of the promotion lottery	PLN	3 688 900	500 000
12	PKO BP S.A.	Security payments to suppliers	PLN	181 000 000	90 009 225
13	PKO BP S.A.	The liabilities related to the supply of alcohol	PLN	21 351	21 351
				<b>221 507 501</b>	<b>112 222 447</b>

\* - Guarantee in EUR is translated into PLN at the average exchange rate of NBP:  
as at 31.12.2014: 1 EUR = 4,2623 PLN, as at  
31.12.2013: 1 EUR = 4,1472 PLN.

**NOTE 35.  
COLLATERALS**

*Table no 51*

**SECURITY ON ASSETS AS AT  
31.12.2014**

Title	Secured property	Amount secure in PLN
Repayment of the loan and investment ING and BZ WBK (by debt value at the balance sheet)	Deposit on shares in Eurocash Group Companies and Tradis	86 720 450
ING Guarantee on securing the payment for suppliers**	Deposit on inventories Eurocash S.A.	180 000 000
PKO BP Guarantee on securing the payment for suppliers**	Deposit on inventories KDWT Sp. z o.o.	80 000 000
PKO BP Guarantee on securing the payment for suppliers*	Deposit on inventories Eurocash S.A.	50 000 000
mBank Guarantee on securing the payment for suppliers**	Deposit on inventories Eurocash S.A.	37 500 000
mBank Guarantee on securing the payment for suppliers**	Deposit on inventories KDWT Sp. z o.o.	9 547 300
BNP Guarantee on securing the payment for suppliers**	General assignment of receivables Eurocash S.A.	150 000 000
Pekao Guarantee on securing the payment for suppliers** Financial leasing agreements (due to net value of fixed assets at the balance sheet date)	Deposit on inventories Eurocash S.A. Ownership of fixed assets in financial leasing	200 000 000 16 062 280

\*\* Nominal value of the minimum security

**NOTE 36.  
FINANCIAL RISK MANAGEMENT**

**a. General information**

The Group has exposure to the following risks from its use of financial instruments:

- a) credit risk
- b) liquidity risk
- c) market risk
- d) operation risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Parent's Management Board has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Management Board on its activities.



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

Internal Audit Department operating in the Parent oversees how management monitors compliance with the Group's risk management policies and procedures. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures.

#### **b. Credit risk**

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

Maximum Group's exposure to credit risks is presented in the table below.

*Table no 52*

#### **CREDIT RISK EXPOSURE**

	as at 31.12.2014	as at 31.12.2013
Receivable and loans	1 583 469 495	1 462 006 569
Cash and cash equivalents	83 248 243	100 254 630
	<b>1 666 717 737</b>	<b>1 562 261 199</b>

\* excluding cash

#### **Trade and other receivables**

Due to the fact that Group's customers are highly distributed and scattered, there is no concentration of credit risks.

The Group's credit risk regarding receivables varies depending on the particular group of clients cooperating with the Group, as follows:

- sales realized in cash constitute over 90% of total sales realized by wholesale discounts and therefore there is no credit risk;
- sales service to franchise and independent clients is mostly on credit and has therefore a greater amount of overdue receivables. However, counterparties credit risk is moderate;
- sales of marketing services to suppliers (promotions, newsletters, advertising brochures) are exposed to minor credit risks due to compensations of receivables related to sales of marketing services with payables to suppliers;
- 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;
- credit sales of tobacco products and impulse goods by the subsidiary "KDWT Sp. z o.o." - a higher percentage of overdue receivables occurs in this category; however, the related credit risk is assessed as moderate;

The Group monitors the amount of overdue receivables on an ongoing basis and in justified cases initiates legal proceedings and raises an allowance for bad debts.

The tables below present the aging structure of trade receivables and bad debts allowances:

Table no 53

**AGEING OF TRADE RECEIVABLES AND BAD DEBT ALLOWANCES AS AT****31.12.2014**

	Trade receivables gross as at 31.12.2014	Bad debts allowance as at 31.12.2014	Trade receivables gross as at 31.12.2013	Bad debts allowance as at 31.12.2013
current	1 191 349 557	-	1 091 901 954	-
0-30 days	234 215 252	-	208 716 077	-
31-90 days	74 536 561	-	62 280 336	-
91-180 days	20 368 041		34 612 867	15 217
> 180 days	59 464 959	55 560 604	59 011 273	39 985 981
	<b>1 579 934 370</b>	<b>55 560 604</b>	<b>1 456 522 508</b>	<b>40 001 198</b>

Table no 54

**ALLOWANCE FOR BAD DEBTS AS AT****31.12.2014**

	for the period from 01.01.2014 to 31.12.2014	for the period from 01.01.2013 to 31.12.2013
Opening balance	40 001 198	42 911 189
Increases	15 651 646	14 746 215
Decreases	(92 240)	(17 656 206)
Closing balance	<b>55 560 604</b>	<b>40 001 198</b>

**Investments**

Cash and cash equivalents are deposited in financial institutions with high credit ratings and the Group does not expect any counterparties to fail to meet their obligations.

**Guarantees**

The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries and for regular key customers.

**c. Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

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

The basis for effective liquidity risk management in the Eurocash Group is an internal model of forecasting cash flows. The Group's liquidity management is focused on detailed analysis, planning and acting in the following three areas:

- investments in fixed assets,
- working capital,
- net financial debt.

The Group's sales is realized mainly in cash. Moreover, the Group has a negative balance of overdraft facility up to PLN 995m, which can be used to meet its short-term financial requirements. As at 31 December 2014 unused limits amounted to PLN 382m.

Eurocash Group optimizes the liquidity positions of subsidiaries and net interest income by using the mechanism of concentration balances (cash pooling) and a system of intercompany loans.

Carrying amounts by agreed due dates are presented in the following tables (excluding any compensation agreements of compensation of receivables and payables):

Table no 55

**LIQUIDITY RISK**

<b>AS AT 31 DECEMBER 2014</b>	<b>Net book value</b>	<b>&lt; 12 months</b>	<b>1-5 years</b>	<b>&gt; 5 years</b>
Financial lease liabilities	21 680 890	5 183 298	16 376 392	121 200
Factoring	29 177 151	29 177 151	-	-
Trade and other payables	3 155 902 657	3 153 487 743	2 414 914	-
Loans and borrowings	694 593 959	694 593 959	-	-
The issuance of debt securities	182 000 000	-	182 000 000	-
	<b>4 083 354 657</b>	<b>3 882 442 150</b>	<b>200 791 306</b>	<b>121 200</b>

Table no 55

<b>AS AT 31 DECEMBER 2013</b>	<b>Net book value</b>	<b>&lt; 12 months</b>	<b>1-5 years</b>	<b>&gt; 5 years</b>
Finance lease liabilities	17 923 119	2 995 450	14 670 637	257 033
Factoring	24 566 656	24 566 656	-	-
Trade and other payables	2 949 590 835	2 949 339 835	251 000	-
Short-term loans and credits	497 676 809	411 697 917	85 978 892	-
The issuance of debt securities	140 000 000	-	140 000 000	-
	<b>3 629 757 420</b>	<b>3 388 599 857</b>	<b>240 900 529</b>	<b>257 033</b>

**d. Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

**Currency risk**

Currency risk does not affect significantly business activities of the Group as the majority of the Group's settlements are made in the local currency. In order to manage the currency risk, regarding significant transactions in foreign currency, the Group buys and sells derivatives. The Group is focused on application of hedge accounting that would minimize the effect of profit and loss variability for the period. In 2014, the Group did not have any open positions in currency derivatives

**Interest rate risk**

The risk of interest rates is related to loans and credits taken out or granted, accordingly.

The following table presents the Company's exposure (maximum exposure) to the risk of interest rate changes by presenting variable and fixed rate financial instruments:

Table no 56

**VARIABLE AND FIXED INTEREST RATE FINANCIAL INSTRUMENTS**

	Present value 31.12.2014	Present value 31.12.2013
<b>Fixed interest rate instruments</b>		
Financial assets	-	-
Financial liabilities	33 455 364	17 923 119
<b>Variable interest rate instrument</b>		
Financial assets	1 670 382 659	1 564 525 267
Financial liabilities	3 417 626 550	3 611 834 301

The Group has analyzed the variable-interest instruments' sensitivity to changes of market interest rates. The table below presents the impact of increase and decrease of the interest rate by 100 bp on the net profit/loss and on equity less net profit/loss. This analysis was performed based on the assumption that all other variables, such as currency exchange rates, remain unchanged. The analysis was performed for the current and for the previous year, that is 2013.

Table no 57

**SENSITIVITY ANALYSIS OF FINANCIAL INSTRUMENTS**

	Income statement		Equity	
	increases 100bp	decreases 100bp	increases 100bp	decreases 100bp
31 December 2014	(17 472 439)	17 472 439	-	-
31 December 2013	(20 473 090)	20 473 090	-	-

**e. Capital management**

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

The Group monitors changes in the structure of shareholders, the return on capital and the level of dividends to ordinary shareholders.

It is the objective of the Group to achieve such value of return on equity that would satisfy the shareholders and guarantee yearly payment of dividend.

There were no changes in the Group's approach to capital management during the year.

**f. Fair values**

As at December 31, 2014, fair value of financial instruments was similar to their carrying value. The Group holds interest rate security instruments (IRS) carried at fair value. For these IRS, fair value was recognized as level 2 in the hierarchy - fair value is determined on the basis of values observed on the market yet different than direct market quotes (e.g. through

direct or indirect reference to other instruments existing on the market). With respect to the applied hedge accounting, the effect of valuation is presented in other comprehensive incomes.

#### **NOTE 37. SUBSEQUENT EVENTS**

##### **1. Acquisition of 50% shares in one of the largest franchisees of Delikatesy Centrum chain**

On September 18, 2014, Eurocash entered into a preliminary agreement with Ewelina Wójcik-Rogala, Jerzy Rogala and affiliates, for a purchase of 50% shares in "Firma Rogala" Ewelina Wójcik Rogala i Jerzy Rogala sp.j. - after its transformation into a limited liability company, operator of 48 retail stores within Delikatesy Centrum franchise network.

Execution of the promised contract shall depend upon fulfillment of the conditions agreed in the preliminary agreement, particularly the obligation by Eurocash to obtain consent of the President of the Office for Competition and Consumer Protection to that effect.

The value of retail sales of Firma Rogala in 2013 was approximately 285 million PLN. Acquisition of shares in Firma Rogala is another element of Eurocash Group's acquisition policy. This enables building long-term partnership with one of the main franchisees, ensuring stable growth of the Delikatesy Centrum network, and increase of Eurocash Group incomes.

On December 08, 2014, Eurocash received a decision of the President of the Office for competition and Consumer Protection (UOKiK) in which the President of UOKiK approved of a merger consisting of Eurocash seizing control over "Firma Rogala" Ewelina Wójcik Rogala i Jerzy Rogala sp.j. after its transformation into a limited liability company ("Firma Rogala").

##### **2. Investment in Frisco.pl.**

On December 1, 2014, Eurocash entered into:

- an investment agreement with Helix Venture Partners Closed Investment Fund with its registered seat in Warsaw, MCI.PrivateVentures Closed Investment Fund acting for the account of MCI.TechVentures 1.0. sub-fund, and FRISCO S.A. with its registered seat in Warsaw, whereunder Eurocash should take over the new issue shares of FRISCO,
- a contingent agreement with Hiranya Holdings Limited with its registered seat in Larnaca, Cyprus, for buying the existing FRISCO shares.

Following registration of the increase of FRISCO's capital and acquisition of shares from Hiranya, Eurocash will be holding shares representing 44.13% of the initial capital of FRISCO and carrying 44.13% votes at the General Meeting of FRISCO.

## SIGNATURES OF THE MANAGEMENT BOARD MEMBERS

Position	Name and surname	Date	Signature
President of the Management Board	Luis Amaral	27 <sup>th</sup> March 2015	
Member of the Management Board Chief Executive Officer	Rui Amaral	27 <sup>th</sup> March 2015	
Member of the Management Board	Arnaldo Guerreiro	27 <sup>th</sup> March 2015	
Member of the Management Board	Pedro Martinho	27 <sup>th</sup> March 2015	
Member of the Management Board Human Resources Director	Katarzyna Kopaczewska	27 <sup>th</sup> March 2015	
Member of the Management Board	Carlos Saraiva	27 <sup>th</sup> March 2015	
Member of the Management Board Financial Director	Jacek Owczarek	27 <sup>th</sup> March 2015	
Member of the Management Board	David Boner	27 <sup>th</sup> March 2015	