

# ANNUAL WRITTEN REPORT OF THE SUPERVISORY BOARD OF EUROCASH SPÓŁKA AKCYJNA FOR 2011

## To the General Meeting of Eurocash Spółka Akcyjna (the “Company”)

The report covers the fiscal year from January 1<sup>st</sup>, 2011 through December 31<sup>st</sup>, 2011.

In 2011 the following persons were the members of the Supervisory Board of the Company:

Mr. João Borges de Assunção	Chairman of the Supervisory Board
Mr. Eduardo Aguinaga de Moraes	Member of the Supervisory Board
Mr. Ryszard Wojnowski	Member of the Supervisory Board
Mr. Janusz Lisowski	Member of the Supervisory Board
Mr. António José Santos Silva Casanova	Member of the Supervisory Board

### **1. Information on the Supervisory Board's activities.**

The Supervisory Board fulfilled its duties according to the Commercial Companies Code and the Company's Statute. In particular, the Supervisory Board was involved in the internal control and risk management systems of the Company, analyzed the Company's results and monitored the performance of the Management Board. Supervisory Board was involved in the process of taking the most vital decisions of the Company like, e.g., decisions related to agendas of the general meetings, approval of Company's budget for the year 2012, approval of agreements made with PZU Group companies, approvals of acquisition of Grupa Dystrybucyjna Tradis and of the related credit facility with Bank Zachodni WBK and ING Bank Śląski S.A..

Pursuant to § 13.12 of the Company's Statute, in 2011 the Supervisory Board held 3 meetings: on June 13, November 20 and November 21.

During 2011 the Supervisory Board also held several conference calls on the following dates: January 3, January 20, February 4, February 23, April 8, May 13, August 14, November 9, December 1.

### **2. Supervisory Board opinion on the Company's financial statements for 2011, including the financial statement for 2011, the Management Board's report on the Company's business activity in 2011 and the proposal of the Management Board concerning the distribution of net profits for 2011.**

#### **2.1 Opinion on the financial statement.**

Pursuant to Art. 382 § 3 of the Commercial Companies Code, the Supervisory Board of the Company conducted the analysis of the separate financial statement of the Company for 2011, including the separate statement of the financial position as at December 31, 2011, showing the total assets in the amount of PLN 2 975 510 824, the separate income statement for the period from January 1, 2011, to December 31, 2011,

showing income for the period in the amount of PLN 64 786 635, separate statement on changes in equity in the period from January 1, 2011 to December 31, 2011, representing the balance as at 31 December 2011 of 347 175 620 and the separate statement of cash flows for the period from January 1, 2011, to December 31, 2011, indicating an increase of net cash in the amount of PLN 12 148 341.

The Supervisory Board is of the opinion that the submitted separate financial statement for 2011, including the statement of the financial position, the income statement, the statement of changes in equity and the statement of cash flows, truly and properly represent the result of the Company's business activity for the above fiscal year, as well as the property and financial standing of the Company as of December 31, 2011.

According to the above, the Supervisory Board adopted a resolution recommending that the General Meeting approved the Company's separate financial statement for 2011.

2.2 Opinion on the Management Board's report on the Company's business activity in 2011.

The financial statement of the Company is accompanied by a written Management Board's report on the Company's business activity in 2011.

The Supervisory Board is of the opinion that the presented report of the Management Board is true and comprehensive. After the analysis of the Management Board report, the Supervisory Board adopted a resolution recommending that the General Meeting approved the Management Board report and acknowledged the fulfilment of duties by the members of the Management Board.

2.3 Opinion on the proposal of the Management Board on distribution of net profits

Upon examination of the proposal of the Management Board of the Company to distribute net profits for 2011, the Supervisory Board adopted a resolution recommending to the General Meeting that the Company's net profits for 2011 amounting to PLN 64 786 635 be distributed in the following manner:

- (a) the shareholders of record on July 2, 2012 shall be eligible to receive the dividend in amount PLN 0.18 per one Company share; the dividend shall be payable by July 7, 2012;
- (b) the balance shall be transferred to Company's supplementary capital.

3. **Supervisory Board opinion on the Company's Capital Group consolidated report for 2011, including the consolidated financial statement for 2011 and the Management Board's report on the Company's Capital Group business activity in 2011.**

3.1 Opinion on the consolidated financial statement.

The Supervisory Board of the Company conducted the analysis of the consolidated financial statement of the Company's Capital Group for 2011, including the consolidated statement of the financial position as at December 31, 2011, showing the

total assets in the amount of PLN 4 578 578 917, the consolidated income statement for the period from January 1, 2011, to December 31, 2011, showing the profit for the period in the amount of PLN 134 387 189 consolidated statement on changes in equity in the period from January 1, 2011 to December 31, 2011, representing balance as at 31.12.2011 thereof of PLN 548 493 908, and the consolidated statement of cash flows for the period from January 1, 2011, to December 31, 2011, indicating an increase of net cash in the amount of PLN 77 314 030.

The Supervisory Board is of the opinion that the submitted consolidated financial statement for 2011, including the consolidated statement of the financial position, the consolidated income statement, the consolidated statement of changes in equity and the consolidated statement of cash flows, truly and properly represent the result of the Company's Capital Group business activity for the above fiscal year, as well as the property and financial standing of the Company's Capital Group as of December 31, 2011.

According to the above, the Supervisory Board adopted a resolution recommending that the General Meeting approved the Company's Capital Group consolidated financial statement for 2011.

### 3.2 Opinion on the Management Board's report on the Company's Capital Group business activity in 2011.

The consolidated financial statement of the Company's Capital Group is accompanied by a written Management Board's report on the Company's Capital Group business activity in 2011.

The Supervisory Board is of the opinion that the presented report of the Management Board is true and comprehensive. After the analysis of the Management Board report, the Supervisory Board adopted a resolution recommending that the General Meeting approved the Management Board report and acknowledged the fulfilment of duties by the members of the Management Board.

## 4. **Report on Audit Committee's activities.**

The Audit Committee has its responsibilities defined in § 10 of the "By-laws of the Supervisory Board". One of such responsibilities is to issue an annual report on its activities. In 2011 the Audit Committee held 2 conference calls.

During the conference call held on April 8, 2011, the Audit Committee discussed recommendation to the Supervisory Board of the positive assessment of the annual financial statement of the Company and of the Company's Capital Group for 2010.

During the conference call held on August 14, 2011, the Audit Committee discussed recommendation to the Supervisory Board of the positive assessment of the half-yearly financial statement of the Company and of the Company's Capital Group.

**Final remarks:** The Audit Committee is of the opinion that it performed its responsibilities in 2011, and that the auditors, not having other commercial relations with the Company, can perform their duties in an independent manner.

## **5. Report on Remuneration Committee's activities.**

The Remuneration Committee held 2 meetings in the year 2011: on June 13 and on November 21.

Remuneration Committee reports that it has obtained full disclosure and access to all necessary information regarding both Company's policy regarding remuneration of Management Board members and its application. The Committee was satisfied that no material departure from stated Management policy has taken place, and expresses appreciation for Management's rigorous approach to alignment of performance incentives with Company objectives.

The Company's Human Resources Director has provided a complete description of how the fixed and variable components of remuneration policy relate to the yearly cycle of objective-setting and performance evaluation. The Committee is satisfied that Management is rigorous both in the design and in the application of a policy that appears to be adequate, in the competitive context of Poland, to encourage the achievement of Company targets.

**Final remarks:** Based on the above, the Remuneration Committee expresses a positive opinion on the mechanisms used to apply Management Board remuneration policy during 2011, and confirm that remuneration payments made during 2011 are in compliance with this policy.

## **6. Evaluation of internal control system and risk management system of the Company.**

Supervisory Board systematically evaluates the quality of the internal control systems and risk management of the Company. The key elements of this system include (i) yearly business plan and budget adopted by the Management Board and approved by the Supervisory Board; (ii) the internal control carried out by the internal audit department; (iii) the Management Board's daily analysis of the results of the Company and comparison thereof with the budget (iv) a verification of the financial statements by an independent auditor selected by the Supervisory Board; and (v) evaluation of financial statements by the Supervisory Board.

On the basis of the evaluation carried out, the Supervisory Board is of the opinion that there were no weaknesses which could significantly impact on the effectiveness of the internal control and risk management system of the Company.

## **7. Concise evaluation of the Company's standing.**

The Supervisory Board having analysed the separate and consolidated financial statements, the Company results and the plans for future developments, has given positive opinion on the Company's and its Group standing and prospects of development thereof. Concurrently the Supervisory Board recommended to the General Meeting to acknowledge fulfilment of the Management Board duties in 2011. The more detailed comments are highlighted in the following points:

**Key financial results:** In the fiscal year of 2011 the Company has yet again improved its economic results. Consolidated sales of Company's Capital Group in 2011

amounted to PLN 9 980.60 million and increased by 28.09% comparing with 2010. Consolidated net profit amounted to PLN 134.39 million, what represents an increase of 4.63% as compared to 2010. Stand alone sales of the Company amounted to 5 522.68 million and increased by 10,45% comparing with 2010. Net profit of the Company amounted to PLN 64.79 million and increased by 2.59% comparing with 2010. These results are a combination of realised acquisitions and strong organic growth posted by all business units of Company's Capital Group in 2011.

#### **Other relevant developments:**

##### **1. Acquisition of shares in Pol Cater Holding Sp. z o.o.**

On 27 January 2011 the President of the Office for Competition and Consumer Protection approved acquisition of Pol Cater Holding Sp. z o.o. by Eurocash S.A. Obtaining the above approval was one of the prerequisites for signing the Promised Contract whereunder the Company will acquire shares in Pol Cater according to preliminary agreement dated 28 July 2010.

On 1 March 2011 the Companies entered into the Promised Contract whereunder Eurocash S.A. acquired 100% shares in Pol Cater Holding Sp. z o.o.

##### **2. Termination of the Own Share Buy-Back Program**

On 13 June 2011 the Ordinary General Meeting resolved capital reserve designed for the Own Share Buy-Back Programme and transfer this funds for the part of supplementary capital, which can be distributed among shareholders. The purchased own shares in amount to 77 693, were sold to the inner management of the Company. On 31 December 2011 Eurocash had no own shares.

##### **3. Conclusion of agreements with PZU Group companies**

On 25 August 2011, Eurocash concluded agreements with Powszechny Zakład Ubezpieczeń SA with its registered office in Warsaw, Powszechny Zakład Ubezpieczeń na życie SA with its registered office in Warsaw (hereinafter jointly referred to as "PZU"), and Towarzystwo Funduszy Inwestycyjnych PZU S.A. with its registered office in Warsaw (hereinafter "TFI PZU"), the subject of which is determining the rights and obligations of the parties related to the establishment, operation, and participation in a non-public assets closed investment fund (hereinafter "Fund"), created by TFI PZU.

The main purpose of the Fund will be the purchase, through special purpose vehicles, of real properties on which warehouses or distribution centres used by Eurocash or Eurocash Group companies will be located. This will allow Eurocash Group companies to increase their rate of expansion. In addition, the Fund, through its special purpose vehicles, will purchase those real properties that are currently the subject of the right of ownership/perpetual usufruct to which Eurocash is entitled.

The parties intend that the total value of the real properties of the Fund be up to PLN 330,000,000.00 before the end of three years from the date of the establishment of the Fund. For the purpose of ensuring financing for the operations of the Fund, Eurocash will take up the Fund's certificates in exchange for the payment of the total amount of

PLN 35,000,000.00, while PZU will take up the Fund's certificates in exchange for the payment of the total amount of PLN 130,000,000.00. The parties will work toward ensuring that the remaining funds necessary to reach the planned value of the Fund's portfolio are obtained from bank loans or through the involvement of an investor other than PZU and Eurocash. It is also possible that PZU will make additional financing available.

The entry into effect of the agreements depends on obtaining administrative approvals in the event where such approvals turn out to be necessary for the performance of the concluded agreements.

#### **4. Credit Facility Agreement with Bank Zachodni WBK S.A. and ING Bank Śląski S.A.**

On 20 December 2011, a credit facility agreement (the "Credit Facility Agreement") up to the amount of PLN 1,070,000,000.00 (one billion seventy million zlotys) was concluded between the Company, its 14 subsidiaries in their capacity as guarantors, and: (i) Bank Zachodni WBK S.A., with its registered office in Wrocław, belonging to the Group Banco Santander SA and (ii) ING Bank Śląski S.A. with its registered office in Katowice. The Credit Facility Agreement was concluded due to the expiry of available credit facility agreement dated 17 June 2011 concluded between the Company and Bank Polska Kasa Opieki S.A. and ING Bank Śląski S.A. the conclusion of which the Company announced in current reports no. 26/2011 dated 17 June 2011 and no. 44/2011 dated 31 August 2011.

On the basis of the aforementioned Credit Facility Agreement, the Banks granted the Company a credit facility up to the amount of PLN 1,070,000,000.00 (one billion seventy million zlotys). The purpose of the credit facility is to finance the purchase by the Company of the shares in the companies purchased from EMPERIA HOLDING S.A on the basis of the investment agreement (the "Investment Agreement") dated 21 December 2010, conclusion of which the Company announced i.a. in currents report no. 1/2011 dated 3 January 2011, 33/2011 dated 1 July 2011 and 48/2011 dated 27 October 2011.

The Credit Facility Agreement provides the obligation to repay the granted credit facility by 30 June 2015. A part of the granted credit facility will be repaid by 30 September 2012, while the remainder will be repaid in equal quarterly installments.

In accordance with the Credit Facility Agreement, the borrowers will be charged interest based on the WIBOR rate for a period comparable to the interest period determined in the Credit Facility Agreement plus the margin specified in the Credit Facility Agreement. In addition, Eurocash is obligated to pay any and all additional fees or commissions related to the conclusion of the Credit

Facility Agreement or other services provided by the banks that are parties to the Credit Facility Agreement in accordance with that Agreement. The Agreement also contains standard provisions imposing limits on the Company and its Subsidiaries in regard to the disposal of components of their assets and their encumbrance as well as the granting of loans, credit facilities, and guarantees.

In the event of the occurrence of the events specified in the Credit Facility Agreement, the agent of the credit facility has the right to terminate the agreement in part or in full immediately as well as to demand the repayment of any and all amounts due under the concluded Credit Facility Agreement after the expiry of the recovery period for a given event set in the Credit Facility Agreement consistent with market standards for similar financing facilities including i.a. cases of non-payments, breach of obligations, non-compliance with the truth of the statements of the Issuer or its subsidiary, insolvency and similar events.

The security for the proper performance of the Credit Facility Agreement by the Issuer and its subsidiaries includes i.a. registered, civil and financial pledges on the shares of the subsidiaries of the Issuer as well as shares acquired from Emperia Holding S.A. in the companies on the basis of the Investment Agreement, registered and civil pledges on the rights to certain trademarks, to which Eurocash S.A. is entitled from their registration, powers of attorney to administer bank accounts and declarations of being subject to enforcement proceedings.

## 5. Acquisition of Tradis

On 21 December 2011 Eurocash has entered into Settlement and Amendments to Investment Agreement dated 21 December 2010 (hereinafter referred to as “Settlement”) with (i) Emperia Holding S.A. with its registered office in Lublin („Emperia”) and with (ii) Emperia’s subsidiary – P1 sp. z o.o. with its registered office in Lublin („P1”), hereinafter referred to jointly as “Parties”. Investment Agreement between Eurocash and Emperia dated 21 December 2010 and Settlement are hereinafter referred to jointly as “Transaction Documents”.

On the basis of Transaction Documents on 21 December 2011 („Transaction Closing Date”) Eurocash has acquired from P1, stakes in Distribution Companies (as defined in current report no. 1/2011 dated 3 January 2011 as well as described in table below) conducting wholesale distribution of FMCG products, as well as retail franchise network for a price of PLN 1.095.575.885 (say: one billion ninety five millions five hundred seventy five thousands and eight hundred eighty five PLN) in cash („Transaction”). The payment of the above mentioned purchase price by Eurocash as well as transfer of legal ownership titles to Eurocash was completed on the Transaction Closing Date.

Company’s Name	Eurocash’s participation in capital	Nominal value of stake / share	Eurocash’s participation in total number of votes
Euro Sklep S.A.	100%	410	100%
Detal Koncept sp. z o.o.	100%	500	100%
Lewiatan Zachód sp. z o.o.	100%	600	100%
Lewiatan Północ sp. z o.o.	100%	500	100%
Tradis sp. z o.o.	100%	500	100%
Drogerie Koliber sp. z o.o.	100%	500	100%
Lewiatan Holding S.A.	66,61%	1	71,17%
Partnerski Serwis Detaliczny S.A.	100%	1	100%
Lewiatan Opole sp. z o.o.	100%	500	100%
Lewiatan Wielkopolska sp. z o.o.	81,43%	2.000	81,43%
DEF sp. z o.o.	100%	500	100%

Company's Name	Eurocash's participation in capital	Nominal value of stake / share	Eurocash's participation in total number of votes
AMBRA sp. z o.o.	100%	500	100%
Lewiatan Podlasie sp. z o.o.	100%	1.000	100%
Lewiatan Śląsk sp. z o.o.	100%	1.000	100%
Lewiatan Kujawy sp. z o.o.	100%	1.000	100%
Lewiatan Orbita sp. z o.o.	100%	500	100%
Gama Serwis sp. z o.o.	100%	650	100%

On the basis of Settlement, Parties have waived any mutual claims resulting from Emperia's and P1's statement on rescinding Investment Agreement – on which Parties informed already in current reports:

- Eurocash - in current reports no: 41/2011, 45/2011, 46/2011, 52/2011;
- Emperia - in current report no 47/2011 dated 9 August 2011;

On the day of concluding Settlement, Arbitration Tribunal has terminated its arbitration proceeding aimed at ruling the dispute between Eurocash, Emperia and P1 in reference to Investment Agreement.

As a result of Transaction completion, the injunction ruled by Circuit Court in Lublin on 2 September 2011 to secure potential Eurocash' claims (Eurocash current report no 45/2011) has collapsed.

Eurocash has financed this acquisition from bank loan amounting to PLN 1.070.000.000 on which Eurocash informed in current report no 53/2011 dated 21 December 2011, as well as from own funds.

Eurocash's acquisition of Distribution Companies is a long-term investment. During 2011 there were no other major events and factors that influenced consolidated income or loss of the Eurocash Group realised in this period.

**Opinion on the Management Board remuneration policy:** the Supervisory Board is of the opinion that the Management Board remuneration policy is in compliance with the corporate governance standards.

**Final comments:** The Company's Capital Group has strong market position with growth perspectives in all business units. Additionally along with realised acquisitions and synergy effect related to the acquired companies, the Company's Capital Group will be able to gain further market share and improve the profitability of the business. The quality of its operations combined with experienced management, know-how, client base and track record of successful integration of acquired companies give a solid base for Company's future healthy development.

**The Report of the Supervisory Board of the Company was adopted in accordance with § 14.2.(iii) of the Company's Statute and § 5.7 of the "By-Laws of the Supervisory Board of Eurocash S.A."**