

**ANNUAL WRITTEN REPORT OF THE SUPERVISORY BOARD OF  
EUROCASH SPÓŁKA AKCYJNA FOR 2015**

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

The report covers the fiscal year from January 1<sup>st</sup>, 2015 through December 31<sup>st</sup>, 2015.

In 2015 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. Francisco José Valente Hipólito dos Santos	Member of the Supervisory Board
Mr. Hans Joachim Körber	Member of the Supervisory Board
Mr. Jacek Sz wajkowski	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 important decisions of the Company like, e.g., decisions related to agendas of the general meetings or approval of Company's budget for the year 2015.

Pursuant to § 13.12 of the Company's Statute, in 2015 the Supervisory Board held 4 (four) meetings: on April 24, November 23, November 24 and November 25.

During 2015 the Supervisory Board also held several conference calls on the following dates: February 25, March 26, August 20 and December 18.

**2. Supervisory Board opinion on the Company's financial statements for 2015, including the financial statement for 2015, the Management Board's report on the Company's business activity in 2015 and the proposal of the Management Board concerning the distribution of net profits for 2015.**

**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 2015, including the separate statement of the financial position as at December 31, 2015, showing the total assets in the amount of PLN 5,016,924,491.00

(five billion sixteen million nine hundred twenty four thousand and four hundred ninety one zloty) the separate income statement for the period from January 1, 2015, to December 31, 2015, showing income for the period in the amount of PLN 500,681,214.00 (five hundred million six hundred eighty-one thousand two hundred and fourteen zloty) and total comprehensive income for the period in amount of PLN 504,219,258.00 (five hundred four million two hundred nineteen thousand two hundred and fifty-eight zloty), separate statement on changes in equity in the period from January 1, 2015 to December 31, 2015, representing the balance as at 31 December 2015 of 1,187,110,767.00 (one billion one hundred eighty seven million one hundred ten thousand seven hundred sixty-seven zloty) and the separate statement of cash flows for the period from January 1, 2015, to December 31, 2015, indicating an increase of net cash in the amount of PLN 15,921,130.00 (fifteen million nine hundred twenty one thousand one hundred and thirty zloty).

The Supervisory Board is of the opinion that the submitted separate financial statement for 2015, 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, 2015.

According to the above, the Supervisory Board adopted a resolution recommending that the General Meeting approved the Company's separate financial statement for 2015.

## 2.2 Opinion on the Management Board's report on the Company's business activity in 2015.

The financial statement of the Company is accompanied by a written Management Board's report on the Company's business activity in 2015.

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 2015, the Supervisory Board adopted a resolution recommending to the General Meeting that the Company's net profits for 2015 amounting to PLN 500,681,214.00 (five hundred million six hundred eighty-one thousand two hundred and fourteen zloty) be distributed in the following manner:

- (a) shareholders of record on May 11, 2016, shall be eligible to receive the dividend in amount PLN 1.00 (one zloty) per one Company's share and totaled in amount to app. PLN 138,831,961.00 (one hundred thirty-eight million eight hundred thirty-one thousand nine hundred and sixty-one zloty); the dividend shall be payable by May 31, 2016, and;
- (b) the balance shall be transferred to Company's supplementary capital.

**3. Supervisory Board opinion on the Company's Capital Group consolidated report for 2015, including the consolidated financial statement for 2015 and the Management Board's report on the Company's Capital Group business activity in 2015.**

**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 2015, including the consolidated statement of the financial position as at December 31, 2015, showing the total assets in the amount of 5,024,550,967.00 (five billion twenty-four million five hundred fifty thousand nine hundred and sixty-seven zloty) the consolidated income statement for the period from January 1, 2015, to December 31, 2015, showing the profit for the period in the amount of 230,211,370.00 (two hundred thirty million two hundred eleven thousand three hundred and seventy zloty) and total comprehensive income for the period in the amount of PLN 233,749,414.00 (two hundred thirty-three thousand seven hundred forty-nine thousand four hundred and fourteen zlotys), consolidated statement of changes in equity in the period from January 1, 2015 to December 31, 2015, representing balance as at 31.12.2015 thereof of PLN 1,168,122,628.00 (one billion one hundred sixty-eight million one hundred twenty-two thousand six hundred and twenty-eight zloty), and the consolidated statement of cash flows for the period from January 1, 2015, to December 31, 2015, indicating a 716,417.00 (seven hundred sixteen thousand four hundred and seventeen zloty)

The Supervisory Board is of the opinion that the submitted consolidated financial statement for 2015, 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, 2015.

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 2015.

3.2 Opinion on the Management Board's report on the Company's Capital Group business activity in 2015.

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 2015.

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 2015 the Audit Committee held 2 conference calls.

During the conference call held on March 26, 2015, 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 2014. In the conference call participated the Company's auditors.

During the conference call held on August 20, 2015, 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 2015, 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 2015 on April 24 and November 25 and conference call held on December 18.

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 2015, and confirm that remuneration payments made during 2015 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 2015. The more detailed comments are highlighted in the following points:

**Key financial results:** In the fiscal year of 2015 the consolidated sales of Company's Capital Group in 2015 amounted to PLN 20,318.21 million and increased by 19.77% comparing with 2014. Consolidated net profit amounted to PLN 230.20 million, what represents an increase of 25.71% as compared to 2014. Stand-alone sales of the Company amounted to 13,750.72 million and increased by 13.49% comparing with 2014. Net profit of the Company amounted to PLN 500.68 million and increased by 104.71% comparing with 2014.

## **Other relevant developments:**

### **Acquisition of Frisco S.A. shares**

On 26th January 2015 Eurocash S.A. finalized the acquisition of newly issued shares of Frisco S.A. after which Eurocash S.A. holds shares representing 44.13% of Frisco's share capital and entitling to 44.13% of votes at Frisco's general meeting.

### **Merger of subsidiary companies**

On 2nd February 2015 KDWT Sp. z o.o merged through the acquisition with Service FMCG Sp. z o.o. by transferring all assets of the acquired company to the acquiring company. At the same time on 2nd February 2015, the company KDWT Sp. z o.o. changed its name to Eurocash Serwis Sp. z o.o., without changing any other data of this company.

### **The signing of the preliminary agreement of acquisition of PDA shares**

On 21st December 2015 Eurocash and Jacek Jantoń, Jarosław Jantoń, Adam Jantoń, Andrzej Tyrka, Zbigniew Makaruk and Jakub Nowak concluded the Investment Agreement, pursuant to which the fulfillment of certain conditions precedent, including, in particular, after its approval by the President of the OCCP, Eurocash will acquire a 100% share in Polska Dystrybucja Alkoholi sp. z o.o. ("PDA"). Due to the necessity of integrating PDA at the operational level, in the opinion of Eurocash S.A. Board full synergies associated with this transaction will be possible to reach within 3 years after the acquisition of control over PDA.

### **The surety by the subsidiaries in connection with the conclusion of the loan agreement**

On 14 September 2015 Subsidiaries - Eurocash Service Sp. z o.o. and Eurocash Franczyza Sp. z o.o. granted a surety for the liabilities due the revolving credit agreement to the amount of PLN 700,000,000.00 concluded on 14 September 2015 between the Company, EC Serwis, EC Franczyza and:

- (i) Bank Zachodni WBK S.A.,
- (ii) Bank BGŻ BNP Paribas S.A.,
- (iii) Bank Gospodarstwa Krajowego,
- (iv) mBank S.A.,
- (v) Bank Polska Kasa Opieki S.A.

On the basis of the Loan Agreement, the Company may use the funds from the loan until 14 August 2020. The final deadline for full repayment date is 14 September 2020. Resources made available to the Company under the Credit Agreement may be used to repay part of the existing short-term financial debt of the Company and for general corporate purposes of the Company.

During 2015 there were no other major events and factors that influenced consolidated income or loss of the Eurocash Group realized in this period.

**Final comments:** The Company's Capital Group has a leader position in wholesale distribution of FMCG product, strengthened by acquisition of Service FMCG Sp. z o.o. and Inmedio Sp. z o.o. in 2014. These activities allowed the Company's Capital Group to achieve sales increase in 2015, despite of relatively weak market conditions and deflation. Additionally due to implemented integration and reorganisation processes in 2015 the Company managed to optimise its operational activities and significantly improved its cost effectiveness and working capital management. The quality of its operations and strong balance sheet 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."**