

**ANNUAL WRITTEN REPORT OF THE SUPERVISORY BOARD OF
EUROCASH SPÓŁKA AKCYJNA FOR 2017**

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

The report covers the fiscal year from January 1st, 2017 through December 31st, 2017.

In 2017 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 wajcowski	Member of the Supervisory Board

Supervisory Board Committees

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

- (i) the Audit Committee, and
- (ii) the Remunerations Committee

Responsibilities of the Audit Committee include as follows:

- (i) supervising the submission of financial information by the Company in the periodical reports, forecasts, etc.
- (ii) supervising the activities of external auditors of the Company
- (iii) giving the opinion on the candidates for the Company’s external auditors to be elected by the Supervisory Board, where external auditors should be changed at least once every 5 years
- (iv) supervising the relationship with the external auditor, including in particular assessing the external auditor’s independence, remuneration and any non-auditing work for the Company, as well as determining the involvement of the external auditor with respect to the content and publication of financial reporting
- (v) each year, evaluating the internal control system in place and the significant risk management system in place, as well as self-evaluation in a form of an annual report of its deliberations, findings, and relationships with the external auditor (in particular, including his/her independence) to be included as part of the Supervisory Board’s

annual report to be presented at the Ordinary General Meeting of Shareholders.

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

Responsibilities of the Remunerations Committee include as follows:

- (i) reporting to the Supervisory Board of the existence of a remuneration policy for the Management Board, which is known to the Remunerations Committee in sufficient detail, including (a) the remuneration structure, (b) the amount of fixed remuneration, (c) the shares and/or options and/or other variable remuneration components and other forms of remuneration, as well as the performance criteria and the application thereof by Management Board Members
- (ii) each year, submitting a proposal for the Supervisory Board's approval for an appraisal concerning the compliance of the remuneration policy for the Management Board and application thereof with regard to the desired standards of corporate governance
- (iii) ensuring the disclosure to the Supervisory Board of the remuneration of the Management Board resulting from an implementation of the remuneration policy
- (iv) each year, submitting a self-assessment in the form of an annual report of its performance to be included as part of the Supervisory Board's annual report and to be presented at the Ordinary General Meeting of Shareholders.

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

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 2018.

Pursuant to § 13.12 of the Company's Statute, in 2017 the Supervisory Board held 5 (five) meetings: on April 25, June 19, June 20, November 27 and November 28.

During 2017 the Supervisory Board also held several conference calls on the following dates: February 22, March 16, March 18, May 11, August 24 and November 9.

2. Supervisory Board opinion on the Company's financial statements for 2017, including the financial statement for 2017, the Management Board's report on the Company's business activity in 2017 and the proposal of the Management Board concerning cover the loss for 2017 and distribution of a dividend from the supplementary capital.

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 2017, including the separate statement of the financial position as at December 31, 2017, showing the total assets in the amount of PLN 5,322,938,556.00 (five billion three hundred twenty two million nine hundred thirty eight thousand and five hundred fifty six zloty) the separate income statement for the period from January 1, 2017, to December 31, 2017, showing loss for the period in the amount of PLN 71,713,088 (seventy one million seven hundred thirteen thousand and eighty eight zloty) and total comprehensive loss for the period in amount of PLN 71,886,160.00 (seventy one million eight hundred eighty six thousand one hundred and sixty zloty), separate statement on changes in equity in the period from January 1, 2017 to December 31, 2017, representing the balance as at 31 December 2017 of 998,109,670.00 (nine hundred ninety eight million one hundred nine thousand six hundred seventy zloty) and the separate statement of cash flows for the period from January 1, 2017, to December 31, 2017, indicating an increase of net cash in the amount of PLN 22,658,955.00 (twenty two million six hundred fifty eight thousand nine hundred and fifty five zloty).

The Supervisory Board is of the opinion that the submitted separate financial statement for 2017, 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, 2017.

According to the above, the Supervisory Board adopted a resolution recommending that the General Meeting approved the Company's separate financial statement for 2017.

2.2 Opinion on the Management Board's report on the Company's business activity in 2017.

The financial statement of the Company is accompanied by a written Management Board's report on the Company's business activity in 2017.

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 cover the loss for 2017 and distribution of a dividend from the supplementary capital.

Upon examination of the proposal of the Management Board of the Company to cover the loss for 2017, the Supervisory Board adopted a resolution recommending to the General Meeting that the net loss for 2017 will be covered from the supplementary capital. Moreover, after reviewing the proposal of the Company's Management Board regarding the payment of a dividend from the supplementary capital to the shareholders, the Supervisory Board adopted a resolution to recommend to the Ordinary General Meeting payment to the shareholders of the dividend from the supplementary capital in such a way that shareholders of record on May 16, 2018, shall be eligible to receive the dividend in amount PLN 0.73 (seventy three groszy) per one Company's share; the dividend shall be payable by June 6, 2018.

3. Supervisory Board opinion on the Company's Capital Group consolidated report for 2017, including the consolidated financial statement for 2017 and the Management Board's report on the Company's Capital Group business activity in 2017.

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 2017, including the consolidated statement of the financial position as at December 31, 2017, showing the total assets in the amount of 5,979,922,099.00 (five billion nine hundred seventy nine million nine hundred twenty two thousand and ninety nine zloty) the consolidated income statement for the period from January 1, 2017, to December 31, 2017, showing the loss for the period in the amount of 29,559,705.00 (twenty nine million five hundred fifty nine thousand seven hundred and five zloty) and total comprehensive income for the period in the amount of negative PLN 29,732,777.00 (twenty nine million seven hundred thirty two thousand seven hundred and seventy seven zloty), consolidated statement of changes in equity in the period from January 1, 2017 to December 31, 2017, representing balance as at 31.12.2017 thereof of PLN 1,030,005,400 (one billion thirty million five thousand and four hundred zloty), and the consolidated statement of cash flows for the period from January 1, 2017, to December 31, 2017, indicating a 40,729,426.00 (forty million seven hundred twenty nine thousand four hundred twenty six zloty).

The Supervisory Board is of the opinion that the submitted consolidated financial statement for 2017, 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, 2017.

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 2017.

3.2 Opinion on the Management Board's report on the Company's Capital Group business activity in 2017.

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 2017.

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 2017 the Audit Committee held 1 meeting on April 25, 2017 and 2 conference calls on March 16, 2017 and August 24, 2017.

During the conference call held on March 16, 2017, 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 2016. In the conference call participated the Company's auditors.

During the conference call held on August 24, 2017, 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 2017, 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 2017 on April 24 and November 29 and 2 conference calls held on February 22 and May 11.

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 2017, and confirm that remuneration payments made during 2017 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. Evaluation of Corporate Governance Rules.

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

In the financial year ended on December 31, 2017, the Company complied with the corporate governance principles set out in the document "Good Practices of Companies listed on the WSE 2016" in accordance with the statement posted on the website: <http://eurocash.pl/eng/investor-relations/corporate-governance.html>.

Supervisory Board has given positive opinion on the Company's fulfilment of Corporate Governance Rules

8. Evaluation of non-financial activities and Corporate Social Responsibility Report.

The Company has issued Non-Financial Report with description of Corporate Social Responsibility activities in its Consolidated Annual Report for 2017. The Supervisory Board has given positive opinion on the Company's the Corporate Social Responsibility communication of such activities

9. 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 2017. The more detailed comments are highlighted in the following points:

Key financial results: In the fiscal year of 2017 the consolidated sales of Company's Capital Group in 2017 amounted to PLN 23,271.08 million and increased by 9.68% comparing with 2016. Consolidated net loss amounted to PLN 29.56 million, what represents a difference of PLN 219.58 million as compared to the profit in 2016. Stand-alone sales of the Company amounted to 14,859.17 million and increased by 4.46% comparing with 2016. Unconsolidated net loss of the Company amounted to PLN 71.71 million and represents a difference of PLN 174.33 million as compared to the profit in 2016.

Other relevant developments:

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

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

Preliminary Agreement to acquire entities controlling the MILA chain of stores

On 15th September 2017, Eurocash concluded the Preliminary Agreement with Argus Retail Holding Limited (company under Cypriot law), non-public closed-end investment fund Elbrus with its registered office in Warsaw, Robert Załęski and Stanisław Sosnowski of purchasing 100% of shares in the share capital of Domelius Limited (company under Cypriot law) with its registered office in Nicosia considered by the issuer, as well as taking over control on its subsidiary companies including: Mila Holding S.A. (previously Grupa 700 market-Detal spółka z o.o. S.K.A.), Mila S.A. (previously market-Detal spółka z ograniczoną odpowiedzialnością sp.j.), Investpol 700 Mila spółka jawna and “Koja-Mila spółka akcyjna” spółka jawna.

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

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

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

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

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

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

The finding of the audit showed that Eurocash S.A. may be obligated to settle a VAT liability in favor of the State Treasury. In accordance with the estimate of the Management Board, the amount of the potential VAT liability may be 121 450 511 PLN. This amount was corrected downwards by the surplus of CIT which arose for the Company in connection with the disclosure of revenue from a sale in the part which

corresponds to 23% VAT, and, thus, does not constitute an actual gain (revenue) of the Company. As a result, the Company made a apayment to bank account of the First Wielkopolski Tax Office in Poznań the amount of 95 746 902 PLN in respect of security of payment of the possible VAT liability.

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

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

Eurocash Group continues to audit the VAT settlements by companies of the Eurocash Group as there exists a suspicion that potential irregularities could appear also in other companies of the Group. Taking into account the turnover of the remaining companies of the Group, gained on transactions concerning intra-Community delivery of goods, the risks associated with such potential irregularities are not material.

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

Resignation of a Member of the Management Board

On 13 January 2017, Mr. David Boner resigned from the position as Member of the Management Board of Eurocash S.A. with effect on 13 January 2017.

Appointment of a Member of the Management Board

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

Development of Eurocash Retail segment

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

1. Acquisitions of regional small supermarket chains,
2. Opening stores run by franchisees,
3. Opening of own retail stores (in cooperation with Real Estate partners).

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

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

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

As a result of new organization and investments, Eurocash Retail segment shall operate (pro-forma, potentially including Mila chain) app. 1,527 proximity supermarket stores with consolidated sales of app. PLN 5.1 bn and app. PLN 7.4 bn retail sales including revenues of Delikatesy Centrum franchised and own stores.

Restructuring of Eurocash Cash&Carry distribution format

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

Cost optimization program

During 2017 Eurocash Group initiated a medium-term program to increase cost efficiency by reducing the costs in areas of Selling, General and Administrative Expenses and Other Operating Costs. The total potential of the cost reductions may reach PLN 150m by 2020. The planned effect of the cost reduction program is expected to be partially off-set by the increase of the level of wages resulting from the pressure on labour costs and inflation.

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

Final comments: The Company's Capital Group has a leader position in wholesale distribution of FMCG product, strengthened by increased scale of cooperation with clients integrated in franchise and partnership chains. In 2017 profitability of the Group was affected by one-off cost related to affection by external entities which participated in mechanism of vat fraud. Moreover profitability was affected by lower gross margin and increased costs due to integration processes and increase of spending for strategic investments to strengthen position of independent retailers such as extension of the offer for Delikatesy Centrum stores by fresh products and development of innovative retail formats under brands: Kontigo, 1 minute, abc on wheels, Duży Ben. In 2017 the Group finalized acquisition of retail company EKO with app. 250 stores in south-western Poland and in signed preliminary agreement to acquire retail company Mila with 188 stores in central Poland. Integration of EKO and Mila chains within Delikatesy Centrum stores gives the Company basis to further development of Retail segment and strengthen position of all Eurocash Group clients.

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."