

**AUDITOR'S REPORT AND  
AUDITOR'S OPINION ON FINANCIAL  
STATEMENT FOR THE PERIOD 01.01-  
31.12.2004**

**EUROCASH SPÓŁKA AKCYJNA**

POZNAŃ, 21 MARCH 2005



## LIST OF CONTENTS

<b>I.</b>	<b>GENERAL PART.....</b>	<b>5</b>
A.	AUDIT COMPANY IDENTIFICATION .....	5
B.	AUDITOR IDENTIFICATION .....	7
C.	LEGAL BASIS FOR AUDIT .....	7
D.	SCOPE OF RESPONSIBILITIES AND PURPOSE OF AUDIT .....	8
E.	INFORMATION ON FINANCIAL STATEMENT FOR PREVIOUS YEAR .....	9
F.	INFORMATION ON AUDITED FINANCIAL STATEMENT .....	9
<b>II.</b>	<b>ANALYSIS OF FINANCIAL STANDING .....</b>	<b>11</b>
A.	RETURN .....	11
B.	FINANCIAL LIQUIDITY .....	12
C.	EFFICIENCY RATIOS.....	13
D.	BUSINESS FINANCING .....	14
E.	EVALUATION OF RATIONALE FOR BUSINESS CONTINUATION .....	15
<b>III.</b>	<b>DETAILED PART .....</b>	<b>16</b>
A.	EVALUATION OF ACCOUNTING SYSTEM AND ADOPTED ACCOUNTING RULES..	16
B.	GENERAL EVALUATION AND CHARACTERISTICS OF MAJOR BALANCE-SHEET AND PROFIT & LOSS ACCOUNT ITEMS.....	17
C.	ADDITIONAL NOTES .....	20
D.	CASH FLOW STATEMENT .....	21
E.	STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY.....	21
F.	REPORT ON COMPANY'S BUSINESS.....	21
G.	INFORMATION ON AUDITOR'S OPINION.....	23



## I. GENERAL PART

### A. AUDIT COMPANY IDENTIFICATION

NAME	Eurocash S.A.
SEAT / BOARD'S ADDRESS	ul. Wołczyńska 18, 60-003 Poznań
TELEPHONE	(61) 651 33 51
FAX	(61) 867 97 21
LEGAL FORM	Joint-stock company (S.A)
DISTRICT COURT (KRS - NATIONAL COURT REGISTER)	District Court of Poznań, 21st Economic Department
DATE OF ENTRY AND REGISTER NUMBER	Date: 27.10.2004 number: 0000213765
OBJECT OF BUSINESS ACCORDING TO EKD [European Business Classification]	Wholesale of consumer goods, including industrial and chemical goods
REGON Statistical number	631008941
TAX IDENTIFICATION NUMBER	779-19-06-082
INITIAL CAPITAL including shareholders with more than 5% of votes	PLN 127,742,000 „Politra” B.V.
SHAREHOLDERS' EQUITY	PLN 142,005,573
COMPANY AUTHORITIES	General Shareholders' Meeting Supervisory Board Management Board

1. Object of the Company's business

1.1. Delivered within the period under audit, as defined in the Register:

- 1.1.1. wholesale of fruit and vegetables,
- 1.1.2. wholesale of meat and meat products,
- 1.1.3. wholesale of dairy products, eggs, oil and edible fats,
- 1.1.4. wholesale of alcoholic beverages,
- 1.1.5. wholesale of alcohol-free beverages,
- 1.1.6. wholesale of tobacco products,
- 1.1.7. wholesale of sugar, chocolate and confectionery,
- 1.1.8. wholesale of tea, coffee, cocoa and seasonings,
- 1.1.9. wholesale of fish, crustaceans and mollusks,
- 1.1.10. wholesale of other food,
- 1.1.11. not specialized wholesale of food, beverages and tobacco products,
- 1.1.12. wholesale of metal products, china, ceramics, glass for use in households, of wallpaper and cleaning agents,
- 1.1.13. wholesale of perfume and cosmetics,
- 1.1.14. wholesale of other products for household and personal use,
- 1.1.15. wholesale of chemical products,
- 1.1.16. other, unspecialized wholesale.

2. Company's Management

As at the date of the Financial Statement, the Company's Management Board comprised:

Luis Manuel Conceicao Do Amaral - President,

Pedro Martinho - Board Member,

Ryszard Majer - Board Member,

Katarzyna Kopaczewska - Board Member,

Arnaldo Guerreiro - Board Member,

Rui Amaral - Board Member,

3. Changes in the composition of Management Board in the audited period and in the period from the balance sheet date to the date of producing the Financial Statement.

- 3.1. On January 22, 2004 the Supervisory Board appointed Ms. Katarzyna Kopaczewska to the function of Board Member.
- 3.2. On September 13, 2004 the Supervisory Board appointed Mr. Rui Amaral and Mr. Arnaldo Guerreiro to the functions of Board Members.
4. Organizational changes
  - 4.1. By virtue of resolution passed by the Shareholders' Meeting as of July 7, 2004, Eurocash Sp. z o.o. was transformed from a limited liability company into a public company. The entry of the transformed entity into the National Court Register was made on October 27, 2004.
  - 4.2. On January 28, 2005 by virtue of resolution by the Management Board of Warsaw Stock Exchange 127.742.000 shares of Eurocash SA were listed on the Warsaw Stock Exchange.

## **B. AUDITOR IDENTIFICATION**

1. The Company HLB Frąckowiak i Wspólnicy Sp. z o.o. was appointed by the Supervisory Board to audit the Financial Statement pursuant to Art. 66, Section 4 of the Accounting Act).
2. The report has been prepared as commissioned by the Management Board under Contract No. 079/10 dated August 9, 2004 and concluded between the said Company and HLB Frąckowiak i Wspólnicy Sp. z o.o., based in Poznań (zip code: 61-831) at Plac Wiosny Ludów 2 (No 238 on the list of entities licensed to audit financial statements). On behalf of the licensed entity, the audit of the Financial Statement was supervised by Jan Letkiewicz, auditor, no 9530/7106.
3. As an entity licensed to audit financial statements, we represent that we fulfill the requirements defined by Art. 66 Section 2 of the Accounting Act that regard the impartiality and independence from the Company being audited.

## **C. LEGAL BASIS FOR AUDIT**

The audit of the Financial Statement was carried out based on:

1. regulations of the Accounting Act dated September 29, 1994 (consolidated text: Journal of Laws of 2002, No 76, item 694, as amended,)

2. Standards of the Auditor's Practice, as issued by the National Board of Auditors.

#### **D. SCOPE OF RESPONSIBILITIES AND PURPOSE OF AUDIT**

1. The purpose of the audit was to provide a written opinion along with an auditor's report on whether the Financial Statement is correct and whether it provides a true and fair view of the assets, the financial standing as well as the financial result of the audited Company.
2. The Financial Statement was signed by all the Members of the Company's Management Board. This means that the Board assumed the responsibility for correctness of accounting and for the statement that the Company correctly applied the accounting rules to ensure a true and fair view of its assets, financial standing and financial result. The obligation for all the Members of the Board to sign the Financial Statement arises under the regulations of the Accounting Act.
3. The Management Board of the Company made a representation on completeness, fairness and correctness of the Financial Statement being submitted for audit. It also represented that between the balance sheet date and the end of the audit no events had occurred that could essentially affect the assets and the financial standing of the Company and that were not recognized in the audited Financial Statement.
4. The Company's Management Board made available the requested data, information, explanations and representations that were necessary for formal, legal and substantive evaluation of the Financial Statement for the period 01.01-31.12.2004 .
5. For the audit of the individual items of the Financial Statement and the books of account the reference samples were used to determine the correctness of audited items. Though limited to selected samples, the audit also applied to settlements with the State budget and, therefore, differences may occur between the conclusions presented in this Report and the result of any possible control being carried out using the full method.
6. The purpose of audit was not to determine and explain any events that might become a basis for the institution of penal proceedings by the prosecuting authorities appointed for this purpose. The audit did not cover any other irregularities that could occur beyond the accounting system of the audited Company, either.
7. During our audit we did not find any events that would imply any violation of the law within the accounting system.

## E. INFORMATION ON FINANCIAL STATEMENT FOR PREVIOUS YEAR

1. The books of account for the audited year were opened based on the Company's Financial Statement prepared for the financial year 2003.
  - 1.1. The Financial Statement was audited by an auditor. The audit was supervised by Jan Letkiewicz, acting on behalf of HLB Frąckowiak i Wspólnicy Sp. z o.o, based in Poznań.
  - 1.2. The auditor gave an unqualified opinion on the Financial Statement.
  - 1.3. The Financial Statement was approved by the Shareholders' Meeting on 15 April 2004 - Resolution no. 1/04.
  - 1.4. The retained financial result was settled in the books of account in accordance with the decisions taken by competent bodies.
2. The Financial Statement produced as at 31.12.2003 was submitted by the Company to:
  - 2.1. District Court of Poznań on 27.07.2004,
  - 2.2. be published in *Monitor Polski B*.

## F. INFORMATION ON AUDITED FINANCIAL STATEMENT

1. The Financial Statement produced by the Company and subject to the audit includes:
  - 1.1. Introductory Notes to the Financial Statement,
  - 1.2. the Balance Sheet produced as at 31 December 2004, with assets and liabilities amounting to PLN **368,053,574** (three hundred and sixty-eight million, fifty-three thousand, five hundred and seventy-four),
  - 1.3. The Profit and Loss Account for the period from 1 January 2004 to 31 December 2004 with a net profit of PLN **20,619,474** (twenty million, six hundred and nineteen thousand, four hundred and seventy four),
  - 1.4. The Statement of Changes in Shareholders' Equity for the period from 1 January 2004 to 31 December 2004 with an increase of shareholders' equity amounting to PLN **26,410,583** (twenty-six million, four hundred and ten thousand, five hundred and eighty-three),
  - 1.5. Cash Flow Statement for the period from 1 January 2004 to 31 December 2004 with a cash inflow decrease by PLN **69,818,259** (sixty-nine million, eight hundred and eighteen thousand, two hundred and fifty-nine),

- 1.6. The additional explanatory notes and information.
2. The Company prepared the Report on the Company's Business for the financial year and attached it to the Financial Statement.

## II. ANALYSIS OF FINANCIAL STANDING

The analysis of financial situation has been prepared using the data resulting from the audited financial statements of the Company for the years 2002, 2003 and 2004. We would like to point out that in 2002 the Company operated for the last 3 months of that year. Therefore, some ratios concerning the year 2003 are not comparable with the subsequent years.

### A. RETURN

1. Return and Profitability Ratios depict the relations of financial results achieved by the Company to different economic categories. They are basic measuring instruments to provide information on the rate of return on assets and equity.

Ratio	Calculation Formula	Desirable Value	Ratio Value		
			2004	2003	2002
Sales Profitability	profit from sales / net sales revenues	max	2.6%	1.5%	-2.5%
Gross Sales Profitability	gross profit / net sales revenues	max	1.6%	0.5%	-4.9%
Total Gross Sales Profitability	gross profit / (net sales revenues + other operating revenues + financial revenues + extraordinary profit)	max	1.6%	0.5%	-4.9%
Net Sales Profitability	net profit / net sales revenues	max	1.3%	0.3%	-3.8%
Return on Equity	net profit / equity without net financial result for FY	max	17.0%	3.7%	-8.9%
Return on Assets	net profit / total assets	max	5.6%	1.1%	-3.7%

2. During the period from 01.01.2004 to 31.12.2004 values of all ratios characterising the profitability of the Company increased in comparison with the previous year.
  - 2.1. The increase resulted mainly from the improved cost-revenue relationship at the sales level.
  - 2.2. The result on sales was the main source of net financial results during the entire period covered by the analysis.
3. During the period 2003-2004 the value of the return on sales ration surpassed the value of the gross return on sales ratio.

- 3.1. This was due to losses on other operating activities and on financial operations.
4. The more than five-fold increase of net profit in 2004 in comparison with the previous year had a positive impact on the return on equity.
- 4.1. The return on equity was 13.3 percentage points higher in 2004 than return on equity in 2003.
- 4.2. Each PLN 100 of shareholders' equity employed generated an average of PLN 17.0 of profit in the last period under analysis.

## B. FINANCIAL LIQUIDITY

1. Financial Liquidity Ratios are used to evaluate the Company's capacity to settle any current liabilities, i.e. liabilities with a repayment period that does not exceed one year.
- 1.1. If the values of ratios decrease to those below the standard, a risk occurs that the Company will lose its capacity to settle liabilities in a due time.
- 1.2. When the ratios are too high, this may mean that current assets are frozen, which lowers the achievable return on capital.

Ratio	Calculation Formula	Desirable Value	Ratio Value		
			2004	2003	2002
Quick Liquidity	(short-term investments + short-term receivables*) / short-term liabilities**	0.8 - 1.0	0.31	0.66	0.45
Current Liquidity	(current assets* - short-term deferred charges)/ short-term liabilities**	1.6 - 2.0	0.87	1.13	0.96
Coverage of Payables by Receivables	trade receivables / trade payables	> 1.0	0.16	0.18	0.12
Working Capital (PLN '000)	current assets - short-term deferred charges - short-term liabilities	max	(27 173.8)	27 294.7	(7 110.7)
Percentage of Working Capital in Total Assets	working capital / total assets	max	-7.4%	7.6%	-2.5%
Receivables turnover (in days)	(average trade receivables / net sales revenues) x 360	-	8	8	7
Payables Turnover (in days)	(average trade payables / (operating costs - depreciation - labor costs) x 360	-	48	48	55

\* without trade receivables with a payment period longer than 12 months

\*\* without trade payables with a repayment period longer than 12 months

2. During the last period under analysis, in comparison with the year 2003, there was a slight reduction in the value of both ratios characterising short-term financial liquidity.
3. Trade receivables covered 16-18% of trade payables in the last two years of the period analysed, which was due to the commercial nature of the Company's operations.

4. The negative value of working capital in the years 2002 and 2004 means that short-term liabilities exceeded the value of current assets, which was also due to the commercial nature of the Company's operations.
5. During the period under analysis the Entity used trade credit more than granted such credit.
  - 5.1. The difference between the rate of payment of receivables and the duration of payables was 40 days in the years 2003-2004.

### C. EFFICIENCY RATIOS

1. Efficiency Ratios show how effectively the Company can manage its individual assets.
  - 1.1. The assets and the tangible fixed assets turnover ratios determine the capacity of the Company's assets to generate sales revenues.
  - 1.2. The inventories turnover ratios determine their average turnover days. The smaller the number of days, the more efficient the assets management.

Ratio	Calculation Formula	Desirable Value	Ratio Value		
			2004	2003	2002
Assets Turnover	net sales revenues / total assets	max	4,37	3,80	0,98
Tangible Fixed Assets Turnover (in days)	net sales revenues / tangible fixed assets	max	23,47	19,19	3,99
Materials Turnover (in days )	(average materials inventory / material consumption cost) x 360 (	min	9	9	5
Goods Inventories Turnover (in days)	(average goods turnover / value of goods at purchase price) x 360	min	26	25	31
Employee profitability (w PLN '000)	net sales / average number of employees	max	1 198,0	1 068,4	222,1

2. During the entire period analysed the ability of assets to generate revenues from sales, measured by the total asset turnover and tangible asset turnover, increased systematically.
  - 2.1. Each one zloty involved in company assets generated PLN 4.37 of sales revenue in 2004.
3. The extension of the average period of storage of goods in 2004 by 1 day in comparison with the previous year was related to the increasing of the size of operations and opening of wholesale facilities in new locations.

4. During the period analysed there was a growing tendency with regard to the ability of employees to generate sales revenues.

#### D. BUSINESS FINANCING

1. Business Financing Ratios are used to evaluate the level of a debt and the possibility of its servicing by the Company and also to evaluate the risks related with the structure of liabilities.

1.1. The debt ratio determines the share of all the outside capital financing the Company's assets in the total capital. An acceptable level of the Company's debt depends on the nature and the type of its business. A correct ratio can be deemed that oscillating between 30% and 50%.

1.2. The coverage of fixed assets by fixed capital should exceed the value 1.0, which means that to ensure safe current operation of the Company, the value of fixed assets should be fully covered by fixed capital, i.e. capital being at the Company's disposal for more than 1 year (fixed capital is the total of shareholders' equity and long-term liabilities).

Ratio	Calculation Formula	Desirable Value	Ratio Value		
			2004	2003	2002
Debt Ratio	outside capital / total capital	30%-50%	61,4%	68,0%	62,0%
Coverage of Debt by Equity	shareholders' equity / outside capital	min 1.0	0,63	0,47	0,61
Coverage of Fixed Assets by Fixed Capital	(shareholders' equity + long-term liabilities + long-term provisions + long-term accruals) / fixed assets	min 1.0	0,84	1,20	0,90
Gearing Ratio	(shareholders' equity + long-term liabilities + long-term provisions + long-term accruals) / total capital	max	39,6%	39,1%	38,0%

1. Over the period of years covered by the analysis the structure of the sources of financing of the Company's operations was not an optimal one, in 2004, however, the values of the debt / assets ratio and debt / equity ratio increased.

1.1. This improvement was the result of a decrease in the value of short-term liabilities of the Entity and, at the same time, an increase of base capital.

2. In 2004, opposite to 2003, the rule in accordance with which the least liquid assets should be financed by long-term capital was not fulfilled.

2.1. As of 31.12.2004 long-term capital covered 84% of assets.

3. The capital structure ratio was at about 39% during the entire period under analysis.

#### **E. EVALUATION OF RATIONALE FOR BUSINESS CONTINUATION**

As a result of the audit of the Financial Statement, including the analysis of the Company's financial standing, we did not find any threat to the continuation of the business for the year following the audited year, due to any intended or compulsory suspension or significant limitation of the Company's existing business.

### III. DETAILED PART

#### A. EVALUATION OF ACCOUNTING SYSTEM AND ADOPTED ACCOUNTING RULES

1. The Company keeps the books of account and produces financial statements based on the documentation that describes the adopted accounting rules (policy) which were approved by the Management Board of Eurocash Sp. z o.o. dated September 30, 2002 and enforced on 01.10.2002, by virtue of Eurocash Sp. z o.o. Management Board Regulation dated September 30, 2002.
2. The above mentioned documentation was audited as to its completeness, which showed that it fulfilled the requirements as provided for by the regulations of the Accounting Act.
3. The books of account used by the audited Company are kept by a computer system.
  - 3.1. Book records are kept with the use of the computer system of company SAP Polska Sp. z o.o. - SAP R/3 and Ferrodo system of the company Ferrodo-Computer Sp. z o.o.
4. The documentation of business transactions, the books of account and the links between the book entries and the documents and the Financial Statement meet the requirements of the Accounting Act.
5. The audit of the documents showed that the books were kept, in all material aspects, on a current basis, fairly, correctly and could be reviewed at any time.
6. The books of account and financial statements are duly stored and protected against any unauthorized change, damage or destruction.
7. The adopted methods of valuing assets and liabilities are described in the Introductory Notes to the Financial Statement. They are compliant with the requirements specified by the Accounting Act and also with the regulations issued based thereon.
8. The accounting rules are applied according to the consistency concept.
9. The Company's Management Board ensured comparability of the financial figures given in the financial statements for all the presented financial years.
10. In the financial year the Company carried out an annual inventory-taking in accordance with the rules defined by the Accounting Act.

**B. GENERAL EVALUATION AND CHARACTERISTICS OF MAJOR BALANCE-SHEET AND PROFIT & LOSS ACCOUNT ITEMS**

1. The items shown in the Balance-Sheet as at 31.12.2004 are consistent with the records and were correctly classified and presented
2. The sums shown in the balance sheet, being checked mostly at random, we assessed to be real.
3. Revenues and related costs were recognized in the books of account with allowance for accrual basis and matching concept. The form of presentation of revenues and costs is compliant with the rules laid down in the Accounting Act.
4. Figures for major items in the Balance-Sheet and the Profit & Loss Account

## 4.1. Balance Sheet

(dynamics - previous year = 100)

ASSETS	31.12.2004		31.12.2003		Dynamics %
	PLN '000	Structure %	PLN '000	Structure %	
<b>A. FIXED ASSETS</b>	<b>173 817.4</b>	<b>47.2%</b>	<b>117 348.7</b>	<b>32.5%</b>	<b>149.0%</b>
1. Intangible fixed assets	98 948.1	26.9%	42 582.8	11.8%	232.4%
2. Tangible fixed assets	71 010.7	19.3%	71 611.8	19.8%	100.2%
3. Long-term receivables	555.8	0.2%	537.0	0.2%	103.5%
4. Long-term investments	0.0	0.0%	0.0	0.0%	-
5. Long-term deferred charges	3 302.8	0.9%	2 617.1	0.7%	126.2%
<b>B. CURRENT ASSETS</b>	<b>194 236.2</b>	<b>52.8%</b>	<b>243 906.0</b>	<b>67.5%</b>	<b>79.6%</b>
1. Inventories	118 490.1	32.2%	99 474.5	27.5%	119.1%
2. Short-term receivables	32 351.3	8.8%	35 542.6	9.8%	91.0%
3. Short-term investments	33 914.9	9.2%	103 733.2	28.7%	32.7%
4. Short-term deferred charges	9 479.9	2.6%	5 155.7	1.5%	183.9%
<b>TOTAL ASSETS:</b>	<b>368 053.6</b>	<b>100.0%</b>	<b>361 254.7</b>	<b>100.0%</b>	<b>102.1%</b>

LIABILITIES	31.12.2004		31.12.2003		Dynamics %
	PLN '000	Structure %	PLN '000	Structure %	
<b>A. SHAREHOLDERS' EQUITY</b>	<b>142 005.6</b>	<b>38.6%</b>	<b>115 588.0</b>	<b>32.0%</b>	<b>122.8%</b>
<b>B. LIABILITIES AND PROVISIONS</b>	<b>226 048.0</b>	<b>61.4%</b>	<b>245 666.7</b>	<b>68.0%</b>	<b>92.3%</b>
1. Provisions for liabilities	3 485.7	0.9%	2 732.7	0.8%	127.6%
2. Long-term liabilities	0.0	0.0%	24 824.0	6.9%	-
3. Short-term liabilities	214 246.3	58.2%	211 455.6	58.5%	91.0%
4. Accruals	8 316.1	2.3%	6 654.4	1.8%	125.0%
<b>TOTAL LIABILITIES:</b>	<b>368 053.6</b>	<b>100.0%</b>	<b>361 254.7</b>	<b>100.0%</b>	<b>102.1%</b>

## 4.2. Profit and Loss Account

Revenues & Costs	01.01. - 31.12.2004		01.01. - 31.12.2003		Dynamics %
	PLN '000	Structure %	PLN '000	Structure %	
1. Net sales revenues	1 607 773,1	100,0%	1 374 545,3	100,0%	117,0%
2. Operating costs	1 565 606,8	97,4%	1 354 339,5	98,5%	115,6%
<b>3. Profit/ Loss from Sales</b>	<b>42 166,3</b>	<b>2,6%</b>	<b>20 205,8</b>	<b>1,5%</b>	<b>208,7%</b>
4. Other operating revenues	974,1	0,1%	3 122,1	0,2%	31,2%
5. Other operating costs	13 823,5	0,9%	17 448,5	1,3%	79,2%
<b>6. Operating Profit/ Loss</b>	<b>29 316,9</b>	<b>1,8%</b>	<b>5 879,4</b>	<b>0,4%</b>	<b>498,6%</b>
7. Financial revenues	4 247,5	0,3%	2 300,0	0,2%	184,7%
8. Financial costs	7 932,7	0,5%	1 650,8	0,1%	480,5%
- including interest	6 193,6	0,4%	21,5	0,0%	28783,5%
<b>9. Profit from Business</b>	<b>25 631,8</b>	<b>1,6%</b>	<b>6 528,6</b>	<b>0,5%</b>	<b>392,6%</b>
<b>10. Extraordinary Result</b>	<b>0,0</b>	<b>0,0%</b>	<b>0,0</b>	<b>0,0%</b>	<b>-</b>
<b>11. Gross Profit</b>	<b>25 631,8</b>	<b>1,6%</b>	<b>6 528,6</b>	<b>0,5%</b>	<b>392,6%</b>
<b>12. Income Tax</b>	<b>4 790,7</b>	<b>0,3%</b>	<b>2 428,5</b>	<b>0,2%</b>	<b>197,3%</b>
<b>13. Other Obligatory Charges</b>	<b>221,6</b>	<b>0,0%</b>	<b>0,0</b>	<b>0,0%</b>	<b>-</b>
<b>14. Net Profit</b>	<b>20 619,5</b>	<b>1,3%</b>	<b>4 100,1</b>	<b>0,3%</b>	<b>502,9%</b>

## 5. Characteristics of selected items of the Financial Statement

### 5.1. Intangible assets

5.1.1. At the balance sheet date, intangible assets reached the level of PLN 98.9 million, which is an increase by 132.4% as compared with the previous year. The reason for the growth were the outlays made on the purchase of know-how regarding business from Politra B.V. , as well as outlays on the project related to the growth of functionality of IT system.

### 5.2. Tangible fixed assets

5.2.1. At the balance sheet date tangible fixed assets accounted for 19.3% of the balance sheet total, which was on a similar level as compared with the previous year.

5.2.2. At December 31, 2004, buildings, premises and structures of land and water engineering were dominant among the tangible fixed assets, and accounted for 46.9% of balance sheet value of the group of assets.

### 5.3. Inventories

5.3.1. Inventories were the major item in the Company's assets.

- 5.3.1.1. They are valued at actual acquisition or purchase prices not exceeding, though, net realizable value, in general at the last acquisition price. Owing to a quick turnover of inventories, the method corresponds approximately to the actual cost, similarly to the FIFO method.
- 5.3.2. Due to the trade character of business, the largest item in inventories was goods. They accounted for 98% of total inventories and 31% of the balance sheet total.
- 5.4. Short-term receivables
- 5.4.1. The most important item in short-term receivables at the balance sheet date were trade receivables. Their total value accounted for 97.9% of short-term receivables.
- 5.4.2. The gross value of trade receivables as at December 31, 2004 amounted to PLN 32,754.5 thousand. In the Balance Sheet receivables were presented as net amount, that is, less revaluing write-offs amounting to PLN 1,093.3 thousand.
- 5.4.3. The analysis of payments after the balance sheet date and of Company's debt collection operations did not necessitate making additional write-offs.
- 5.5. Cash
- 5.5.1. At the end of 2004 cash balance decreased by 66.4% which was due to the repayment of loan from Jeronimo Martins Dystrybucja Sp. z o.o. (PLN 28,617.9 thousand) and purchase of rights to know-how from the company Politra B.V (PLN 52,403.2 thousand)
- 5.6. Shareholders' Equity
- 5.6.1. Initial capital presented in liabilities at the balance sheet date is consistent with the Company Deed and entries in the National Court Register.
- 5.6.2. In 2004 an increase in the share capital amounting to PLN 5,853.0 thousand was registered in the National Court Register.
- 5.7. Short-term payables
- 5.7.1. The dominant item in short-term payables at the balance sheet date was trade payables, which accounted for 94.5% of the payables.
- 5.7.2. The second largest item in short-term payables at the balance sheet date was a part of balance for concluded leasing agreements, which became due within less than 12 months as of the balance sheet date.

5.8. Revenues from sales

5.8.1. The major item in revenues in the audited period were revenues from the goods sold, accounting for 93.1% of total revenues. All the revenues were from domestic business.

5.9. Operating costs

5.9.1. In the audited period the level of operating costs incurred was influenced by the value of goods sold, which resulted from the character of Company's business.

5.9.2. The major item in costs by type was the costs of outside services, including the costs of rentals for leases of a room and transport costs. The second biggest item in the costs by type was labor costs.

5.10. Other operating revenues and costs

5.10.1. In the audited period the Company incurred loss on other operating activity.

5.10.2. The dominant item in other operating costs was license fees and inventories and receivables revaluing write-offs.

5.11. Financial revenues and costs

5.11.1. In the audited period from 01.01.2004 to 31.12.2004 the Company incurred loss on financial activity amounting to PLN 3,685 thousand.

5.11.2. The dominant item in the financial revenues was interest on cash at bank. The dominant item in the financial costs was interest on a loan.

## C. ADDITIONAL NOTES

### Evaluation of Additional Notes

1. Additional notes, including the introductory notes to the Financial Statement and additional explanatory notes, contains complete data, compliant with the requirements of the Accounting act and with the actual state of affairs.

**D. CASH FLOW STATEMENT**

## Evaluation of Cash Flow Statement

1. The Cash Flow Statement was correctly made, in accordance with the provisions of the Accounting Act.
2. The data presented in the Cash Flow Statement are consistent with the Balance Sheet and Profit and Loss Account, and particular cash flows were classified in adequate items of the statement.
3. The general change amounting to PLN -69,818,259 was determined by :
  - 3.1. cash flow balance from operating activity PLN 40,294,555
  - 3.2. cash flow balance from investing activity PLN - 78.505.163
  - 3.3. cash flow balance from financial activity PLN - 31.607.652

**E. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

1. The Statement of Changes in Shareholders' Equity was correctly made, in accordance with the regulations laid down in the Accounting Act.
2. The data presented in the Statement of Changes in Shareholders' Equity is consistent with the Balance Sheet and Profit and Loss Account and particular amounts of changes in capital were classified in adequate items of the statement.

**F. REPORT ON COMPANY'S BUSINESS**

## Evaluation of Report on Company's Business

1. The Report on the Company's Business includes the following elements:
  - 1.1. the information on the Company's assets and financial standing, the evaluation of any achieved results, the identification of risk factors and the description of threats, particularly the information on:

- 1.1.1. events that have a significant impact on the Company's business that occurred in and after the financial year to the date of approval of the Financial Statement,
  - 1.1.2. The Company's expected development,
  - 1.1.3. the major achievements related with research and development,
  - 1.1.4. the present and expected financial standing,
  - 1.1.5. the purchase of own shares, in particular the purpose of purchase, number and nominal value, indicating what part of initial capital they account for, purchase price, and selling price of the shares in the event of their transfer,
  - 1.1.6. the branches (plants) that the Company possesses;
  - 1.1.7. financial instruments in :
    - 1.1.7.1. the risk of price changes, credit risk, significant disturbing of cash flows and loss of financial liquidity that the Company is exposed to,
    - 1.1.7.2. objectives and methods of financial risk management, adopted by the Company, including the methods of securing significant planned transactions, for which securing accounting is applied,
  - 1.2. the financial and non-financial ratios, relevant to the evaluation of the Company's position, including the information on environmental protection and employment, as well as additional explanations on the amounts presented in the Financial Statement.
2. The Report on the Company's Business for the financial year 2004 is complete within the meaning of the Accounting Act, and all the information provided therein is consistent with the data given in the Financial Statement.
  3. The thematic scope is in accordance with requirements of the Accounting Act.

## G. INFORMATION ON AUDITOR'S OPINION

In our opinion, the audited Financial Statement, including figures and explanations:

- gives a true and fair view of the information material for the evaluation of the Company's assets and financial position as at 31 December 2004, as well as of the financial result for the financial year from 1 January 2004 to 31 December 2004,
- was produced, in all material aspects, in compliance with the accounting rules (policy) provided for by the aforementioned Act and on the basis of correct books of account,
- provided the data which was presented in accordance with the regulations of Order of the Council of Ministers as of October 16, 2001, on ongoing and periodic data provided by issuers of securities (Journal of Laws, no. 139, item 1569, as amended),
- is in accordance with the laws and provisions of the Deed of the Company applying to the financial statement.

The information included in the Report on the Company's Business for the financial year takes into account the Order of the Council of Ministers of 16 October 2001 on periodic and ongoing information provided by issuers of securities, and it is consistent with the information provided in the audited Financial Statement.

Jan Letkiewicz

Cecylia Pol

Auditor  
No. 9530/7106

President  
HLB Frąckowiak i Wspólnicy Sp. z o.o.,  
entity licensed to audit financial statements, entered on the list of  
authorized auditing entities under No 238  
Auditor  
No. 5282/782

This report contains 23 pages.