



## **Eurocash S.A. Discount Cash & Carry Chain**

### **Report on the Company's Activity in the Financial Year from 1 January to 31 December 2004**

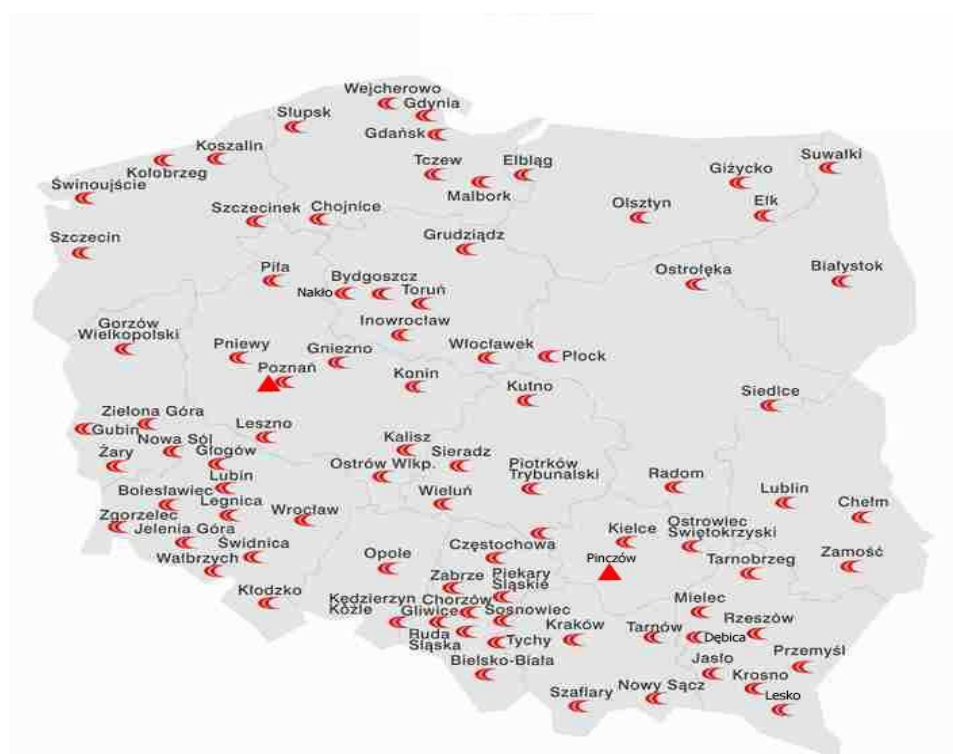
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## 1. Activity Description

- Eurocash Discount C&C is the largest in terms of the number of outlets and the only countrywide wholesale chain in Poland. It operates a chain of 83 of discount wholesale C&C stores which sell fast moving consumer goods (FMCG).
- The Company has developed a nationwide franchised chain of "abc" grocery shops that support its wholesale operations.
- Eurocash C&C discount chain provides supplies to more than 60,000 customers (including the "abc" shops). There is no dependency on any of the recipients.
- The Company purchases goods from approximately 365 suppliers. None of the suppliers accounts for more than 5% of the total purchase. There is no dependency on any of the recipients.
- In terms of sales value, Eurocash Discount C&C ranks among the three largest FMCG wholesale chains operating according to the cash & carry concept.

### Geographical range



- The Eurocash Discount C&C concept is to offer low prices of products most frequently bought, high availability of products, sale of single items, comfortable and fast shopping as well as proper interpersonal relations with customers.
- All Eurocash discount C&C sales are accomplished in the territory of Poland.
- The product range includes about 3,500 products of which approximately 85% are food products and refreshing beverages.

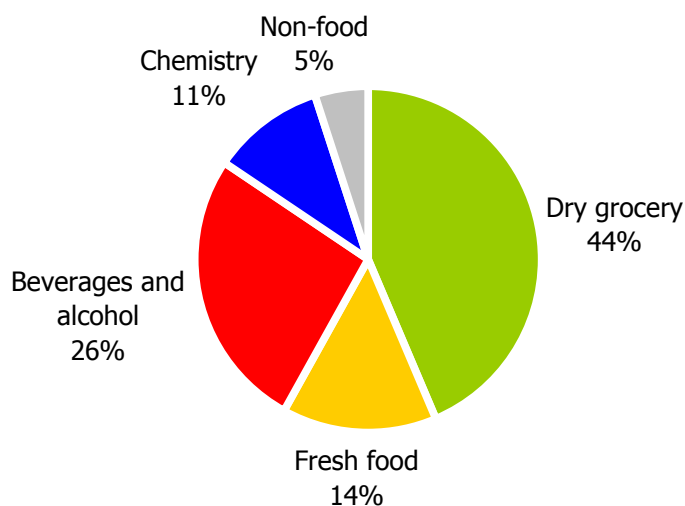
- At the same time, Eurocash Discount C&C also markets its own brands. These private brands are autonomous and their image is independent of the Eurocash brand itself. Manufacturers are specified on these products packagings.
- Basic information about Eurocash Discount C&C chain of wholesale stores is presented below.

**Operational data**

Number of wholesale stores	83 in the cities over 25 000 inhabitants
Average sales area	1,700 m <sup>2</sup>
Invoicing points	from 2 to 5 per store
Employees	Average 12 persons per store (two shifts)
Parking spaces	from 10 to 50 per store
Opening hours	In most stores from 8.00 a.m. until 8.00 p.m., Saturdays until 2.00 p.m.

- Eurocash Discount C&C assortment structure is presented on the below chart.

**Sales structure by assortment groups in 2004**



- Total Eurocash Discount C&C sales area is 143,873 sq. m, which gives about 1500 sq. m per store. That size ideally meets the needs of local market on the one hand, and on the other - allows to open a store with little capital expenditure.

**Employees**

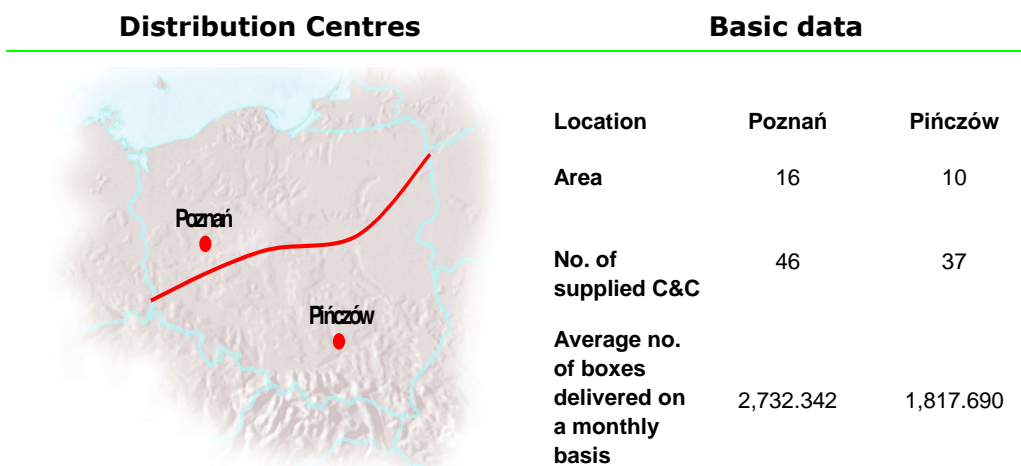
- As at the end of 2004 Eurocash Discount C&C employed 1,438 employees (without employees of agency stores).

	<b>2004</b>
	<b>no. of employees</b>
C&C stores employees	982
Distribution Centres employees	304
Head Office employees	152
<b>Average headcount</b>	<b>1,438</b>

- Average headcount per store is 12 employees and a manager who reports directly to one of 13 area managers. Area managers report directly to one of three operational directors who are responsible for particular regions of Poland.

**Logistic structure**

- Eurocash Discount C&C products are distributed to cash & carry stores through two distribution centres located in Poznań and Pińczów. Geographical line of the service rendered by the said centres is presented below.



**2. Factors influencing company's activity and financial results. Material events in the Company's activity.**

- **External factors**

- Economic situation in Poland

The pace of economic growth, the level of household incomes and other macroeconomic factors all have a significant impact on the level of population's spending and the dynamics of domestic demand, thereby affecting the Eurocash's revenues.

Growth of GDP by more than 5% and household spending by more than 3% had a positive influence on the volume of sales in 2004.

- The structure of Polish FMCG retail distribution market

The prevailing form of FMCG retail distribution in 2004 was a traditional channel of distribution - about 60% at the end of the year. This high percentage (relatively to other European countries) results from low concentration of population in Poland and bad housing conditions stimulating to go shopping more often. The Company takes advantage of this situation as its stores supply small- and middle-sized shops often located outside large cities.

- The structure of a traditional channel of FMCG distribution

The Company estimates that at the end of 2004 there were about 9,000 operators on the traditional FMCG distribution market, most of which were local wholesalers. It creates the possibility of competitive price advantage for Eurocash Discount C&C, which operates national sales chain.

- **Internal factors**

- IT systems

An efficient, uniform IT system provides centralised and effective business processes management, giving an exact profitability analysis of particular products and stores, which guarantees high level of business safety.

- Optimisation of purchase, sale and storage costs

Limiting of the product range to 3,500 SKU allows to keep low prices, low inventory rotation (26.9 days), and the resulting low costs of storage and little inventory losses (0.3% of sales).

- Discount Cash & Carry concept

Cash & carry sale concept provides a low level of reserves for receivables (0.03% of sales), no costs of completing and transport of sold goods and generates negative working capital (-20.7 days of sales).

**Material events in the Company's activity in the current financial year**

- On 8 January 2004 the Extraordinary General Meeting of Shareholders adopted the resolution on the share capital increase by PLN 656,000 by creating new 656 (six hundred and fifty six) shares at PLN 1,000 each. The increased capital is covered with non-financial contribution in the form of fixed tangible assets;
- On 30 July 2004 Eurocash Sp. z o.o. was transformed into Eurocash S.A.;
- By virtue of the contract made on 18 August 2004 between Eurocash S.A. and Politra B.V., the parties thereto decided that as of 31 August 2004 the Know-How Licence agreement expired and that POLITRA B.V. would sell Know-how to Eurocash S.A. According to the agreement Eurocash S.A. will pay a remuneration of 0.7% of the planned net sales over the term for which the licence agreement was concluded (until April 2009), discounted to their current value. Payment of the price of EUR 11,796.418 agreed in the contract was effected on 10 September 2004;
- On 30 November 2005 the Polish Securities and Exchange Commission admitted Eurocash shares to public trading;
- On 18 December 2004 Eurocash SA entered into an agreement with MHC Spółka Jawna M. Marcisz, T. Harasim, J. Ciszewski with its registered office in Wodzisław Śląski (MHC), and JBG Sp. z o.o. with its registered office in Wodzisław Śląski ("JBG"), which sets forth the principles governing the gradual take-over of the locations and equipment of 12 stores and acquisition of the MHC trademark as well as a portion of goods kept in these stores. The locations shall be taken over through leases or subleases of the stores. The equipment, trademark and goods in the stores shall be purchased by Eurocash. The locations shall be taken over gradually one by one from January 2005 to June 2005 inclusive. Eurocash shall start supplying MHC stores in January 2005. The price for acquiring all assets shall not exceed PLN 14,000.000. The final price shall depend on the actual number of stores taken over, after taking into account the outcome of a due diligence review. The parties agreed basic terms of selling vegetables and fruit under which Eurocash will enable MHC to sell vegetables or fruit in Eurocash eight existing stores. Eurocash's default on this obligation is subject to the contractual penalty of PLN 150,000 with regard to each such store. The stores to be taken over will be included in the C&C Discount chain.

- On 22 December 2004 the Company and Tulipan House Sp. z o.o. with its registered office in Poznań concluded a lease contract concerning the lease of land of 80,000 square metres, situated in Komorniki near Poznań, and a building to be constructed by Tulipan House on the land under a "build-to-suit" project (construction by the developer of a facility in accordance with the future lessee's requirements on a site pre-selected by the lessee). The facility shall consist of warehousing space with the total usable area of 20,000 square metres, office space with the total usable area of 3,200 square metres, and roofed open-air warehouses for pallets of the total usable area approximating 1,500 square metres, along with the outdoor infrastructure and car parks (jointly referred to as the "Facility"). The lease contract is concluded for 10 years. The Facility will house the distribution centre and the office of the company's Management Board, moved from their current location.

### **Main domestic and foreign investments**

There were no foreign investments in 2004. Among domestic investments amounting in a given period to PLN 78,779,000, the major ones were as follows:

- Acquisition of know how from Politra – PLN 52,403,000
- New IT system – PLN 12,406,000
- Opening of three new C&C stores – PLN 4,400,000

The rest of investments concerned the current Company activity.

### **3. Development prospects of the issuer. Essential risk factors and basic threats.**

#### **Macroeconomic situation. Purchasing power**

According to commonly known forecasts, the economic growth in Poland will be about 4.5% in the year 2005, and the household spending will grow about 3.5%. This increase should have influence on the potential of FMCG market and, consequently, on the Company's sales. The economic growth slowdown, decrease of purchasing power and of household spending for consumption may have negative impact on the Eurocash's Discount C&C sales. This risk is partly neutralised by the fact that the demand for the goods sold by Eurocash Discount C&C is not strongly correlated with economic trends.

#### **Structure of the Retail Market**

The importance of modern distribution channels has risen recently. The significant growth thereof may constitute a risk for the Company's activity. In Eurocash's opinion, this risk is definitely reduced by low population concentration and law regulations preventing the growth of the said channels. According to the Company estimates, the modern distribution channel share will grow from 40% now to about 50% in the year 2010.



### **Wholesale FMCG Market**

The Company expects that in the following years the number of local and regional wholesale stores will drop which will be accompanied by a considerable growth in significance of large, nationwide and cross-regional wholesale store chains. The company intends to actively participate in market consolidation process by acquiring smaller wholesalers. The effect of those activities will be the increase in investment expenditures and, consequently, in sales. Acquiring new wholesalers the Company bears a number of essential risks resulting from, among other things, possible wrong evaluation of acquired location in terms of the types of customers, structure of sales or local market conditions.

### **New openings**

In 2005 the Company is planning to open new Discounts C&C in the following localizations (taken over from MHC): Racibórz, Częstochowa, Jaworzno, Zawiercie, Opole, Cieszyn, Żywiec, Oświęcim, Kędzierzyn-Koźle, Nysa, Rybnik, and Wodzisław Śląski.

Eurocash also plans to open on its own a new C&C Discount in Starogard Gdański.

Apart from the aforementioned localizations the Company is actively looking for new ones which would be attractive enough to open and operate C&C Discounts.

## **4. The Company's financial status and performance**

- As at the end of 2004 the assets of the Company were PLN 368,054,000
- Non-current assets were mostly intangible (PLN 101,448,000) and tangible (PLN 68,511,000).
- Current assets consisted of inventories (PLN 118,490,000), cash and cash equivalents (PLN 33,915,000) and short – term receivables (PLN 32,718,000);
- Share capital was PLN 127,742,000 and consisted of 127,742,000 equal, indivisible shares of the nominal value of PLN 1 each;
- At the end of the financial year short – term liabilities were PLN 211,930,000.
- In 2004 the total sales reached PLN 1,607,773,000 which represents an increase by 17% as compared with 2003. Considering only the stores operating in 2003 the company achieved the growth of sales of 15.7%.
- The core activity of the Company during the current financial year has been wholesale of goods. The revenues on that activity were 93% of the total operating revenues.
- Costs of goods and materials sold reached in the period under analysis PLN 1,406,956,000 which induced gross profit on sales of PLN 200,817,000. Sales costs were PLN 110,410,000 while costs of general management were PLN 48,241,000;  
The surplus of other operating costs, which amounted to PLN 13,823,000 over other operating revenues which in the current year amounted to PLN 974,000, induced PLN 29,317,000 of operating profit which was 1.82% of total sales. The operating profit

increased by 399% when compared with 2003, (PLN 5,879,000, 0.43% of total sales).

In 2004 financial revenues were PLN 4,248,000, whereas financial costs - PLN 7,933,000;

- An increase in total sales by 17% and, at the same time, an increase in the operational costs by 15.1 % as compared to 2003 resulted in the growth of profitability in 2004. In 2004 EBITDA was PLN 50,961,000, that is 3.17% of total sales, an increase by 164% as compared to 2003 (PLN 19,284,000, 1.4% of total sales).
- In 2004 there were no events of the nature of profits or extraordinary losses.
- At the end of the financial year the Company reached profit before tax of PLN 25,632,000 and profit after tax of PLN 20,619,000, which is 1.28% of total sales and an increase by 403% when compared with 2003 (PLN 4,100,000, 0.03% of total sales);
- Cash flows from operating activities amounted to PLN 40,295,000, which is an increase of 38.6% when compared to 2003 (PLN 29,081,000)
- Cash flows from investing activities were PLN 78,505,000. These mainly reflect the acquisition of know-how license and investments in Information Technology.
- Cash flows from financing activities were PLN 31,608,000.
- Main indicators describing Eurocash S.A. activity:

<b>Working Capital</b>	<b>2003</b>	<b>2004</b>
1. Inventory rotation (in days)	26,4	26,9
2. Receivables rotation (in days)	9,4	7,4
3. Liabilities rotation (in days)	56,0	55,0
<b>4. Operating cycle (1+2) (in days)</b>	<b>35,9</b>	<b>34,3</b>
<b>5. Cash conversion (4-3) (in days)</b>	<b>-20,2</b>	<b>-20,7</b>
<b>Return Indicators</b>	<b>2003</b>	<b>2004</b>
ROA	1,1%	5,6%
ROE	3,5%	14,5%

## **5. Additional information**

### **Events materially affecting the Company's activity which occurred after the end of the financial year.**

- On 4 February 2005 Eurocash S.A. was listed for the first time on the Warsaw Stock Exchange.
- Eurocash has approved a plan under which selected employees will have the option to buy shares.

The plan was divided into two tranches, the allocation will be effected based on the performance in the years 2004 and 2005 and in 2008 and 2009 respectively.

Employees must hold bonds entitling to acquire shares for at least three years and they must be employed with Eurocash for that period.

There will be 3,193,550 shares in each tranche representing 2.5% of total shares of the Company (There will be 6,387,100 shares together in both tranches, representing 5% of total shares of the company).

The share price in the first tranche will be based on the public offering price, in the second tranche it will be based on the market price.

## **Changes in the composition of the Supervisory Board and Management Board**

### **Supervisory Board**

- On 13 October 2004 the General Meeting of Shareholders adopted the following resolutions:
  - on appointing Antonio Casanova and Ronaldo Coelho de Mogalhaes as the Supervisory Board Members.
- On 13 October 2004, under the representation of the Shareholder of Politra B.V, Geoffrey Crossley, Eduardo Aguinaga and Joao Borges de Assuncao were appointed as the Supervisory Board Members;
- As at 31 December 2004, the Supervisory Board consisted of:  
João Borges de Assunção – Chairman  
Antonio Jose Santos Silva Casanova - Member,  
Ronaldo Coelho de Magalhaes - Member,  
Geoffrey Crossley – Member.

### **Management Board**

- On 24 June 2004 the Eurocash Sp. z o.o. Supervisory Board adopted the resolution on the appointment of the joint stock company Management Board in the following composition: Luis Amaral, Pedro Martinho, Katarzyna Kopaczewska and Ryszard Majer;
- On 13 July 2004, under the Supervisory Board's resolution, Mr Luis Amaral was appointed President of the Management Board effective as of 30 July 2004 (that is as of the transformation of Eurocash Sp. z o.o. into Eurocash S.A.);
- On 13 September 2004 the Supervisory Board adopted the resolution on appointing Mr Rui Amaral and Mr Arnaldo Guerreiro Members of the Management Board;

- As at 31 December 2004 the Management Board consisted of:  
Luis Manuel Conceicao do Amaral - President,  
Rui Amaral – Member,  
Katarzyna Kopaszewska – Member,  
Arnaldo Guerreiro – Member,  
Ryszard Majer – Member,  
Pedro Martinho - Member

**Shares hold by Management Board and Supervisory Board. Shareholders holding more than 5% of the total number of votes in the General Meeting.**

Mr Luis Manuel Conceicao do Amaral, President of the Management Board of Eurocash S.A., held as at 31.12.2004, directly and indirectly 100% of Eurocash S.A. shares.

**Significant Agreements**

In 2004 the Company did not conclude any agreements, excluding the one described below, which would, according to the regulation of the Council of Ministers on information obligations of public companies, be recognized as significant. 10% of the value of sales revenues was accepted as a criterion to classify a commercial agreement as significant.

On 15 March 2004 an insurance agreement was concluded with Sopockie Towarzystwo Ubezpieczeń (Insurance Company) Ergo Hestia SA covering all risks of the property which the Company owns or holds in possession and for which the Company is liable under certain agreements concluded in writing, if it has been declared to be insured, as well as insuring the loss of profit before tax.

The agreement stipulates the sums insured for the Issuer's individual assets and limits of the insurer's liability for individual risks, with the total limit of the insurer's liability for all compensations set at PLN 200,000,000 (per one and all occurrences).

The agreement was concluded for a specified time – the insurance term starts at 12:00 a.m. on 1 January 2004 and ends at 12:00 a.m. on 31 December 2004.

**Profit appropriation**

Eurocash C&C Discount Management Board will propose to the General Meeting the following appropriation of the 2004 profit :

- to cover losses from previous years,
- to increase the supplementary capital,
- not to pay dividends.

**Other information**

- Transactions with related entities are described in additional note no. 8;
- Company did not use any financial instruments in 2004;
- There were no sales in foreign currencies in 2004;
- In 2004 management rules were not changed;
- In 2004 the Company did not conclude any contracts, which may change proportions of shares held by present shareholders, excluding the abovementioned stock option scheme;
- Information about loans, guarantees and securities is included in additional note no. 3;
- As at 31 December 2004 there were no outstanding advance payments, credits, loans, guarantees or sureties granted by the Company to the Members of the Management Board and Supervisory Board;
- Remunerations of the Members of the Management Board and Supervisory Board are described in additional note no. 11.

Luis Manuel Conceicago Do Amaral President of the Management Board	Ryszard Majer Member of the Management Board
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Pedro Martinho Member of the Management Board	Arnaldo Guerreiro Member of the Management Board
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Rui Amaral Member of the Management Board	Katarzyna Kopaczewska Member of the Management Board
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Poznań 21.03.2005