Eurocash S.A.

Management Report

for the first half of 2005

1. Business Description

Eurocash is the largest, in terms of the number of wholesale stores, Discount Cash & Carry chain in Poland. At the end of June the chain of Eurocash S.A. comprised 92 Cash & Carry discount stores, offering fast moving consumer goods (FMCG).

Eurocash S.A. offers around 3500 products sold all over Poland. The company does not carry out any export or import activity. The share of particular categories of products in total sales is presented below:

	1st half 2005	1st half 2004	year 2004
Dry grocery	39,7%	43,7%	42,7%
Fresh products	14,3%	14,0%	13,8%
Alcohol	15,5%	13,0%	14,1%
Cigarettes	7,1%	6,7%	7,1%
Beverages	12,9%	11,4%	11,2%
Chemistry	10,5%	11,2%	11,0%
	100,0%	100,0%	100,0%

Eurocash S.A. also sells its private label products, available only within its own chain. The share of the said products in the 1st half of 2005 was 11.8 % (13% in the corresponding period of 2004).

The Company established a country-wide chain of franchise “abc” shops, which support its sales. At the end of the 1st half of 2005 the said chain covered around 2000 shops. The main purpose of establishing the chain of retail “abc” shops is to acquire a stable group of recipients who gain a competitive advantage on a local market due to the membership in the chain (better purchase prices, marketing support). In the 1st half of 2005 the share of the sales to the “abc” chain constituted almost 40% of the total sales of Eurocash S.A.

Eurocash supplies over 60 000 customers (including “abc” customers). The structure of recipients is very diverse, the Company is not dependent on any of them.

Decisive factors for winning a strong position among the customers by Eurocash discount stores are first of all:

- low prices (lowest prices in the basket of most commonly purchased products),
- high availability of goods,
- sales per units,
- fast and convenient purchases,
- interpersonal relations.

Low prices can be obtained by:

- narrow assortment of goods resulting in fast movement of products, low warehouse losses and high turnover on individual products, allowing for gaining high benefits from suppliers,
- gaining "scale benefits" by developing a large sales chain,
- centralisation of management functions, modern IT system allowing to control thoroughly the wholesale business,
- sales mainly on a Cash & Carry basis, where minimisation of credit sales results in a low volume of bad debts (0.02% in the first half of 2005) and a shorter cycle of cash turnover.

The Company is supplied by over 300 suppliers. The share of no supplier exceeds 5% of total purchases, so the Company is not dependent on any supplier.

Discount stores are located mainly in mid-sized towns, over 25 000 inhabitants. The total area of all 92 stores is presently 182 160 m^2. They are supplied directly from two logistics centres: Poznań and Pińczów. It is planned to move the distribution centre and head office of the Company in the territory of Poznań in the 2^{nd} half of 2005.

As at 30 June 2005 Eurocash S.A. employed 1,622 persons (excluding employees of agency stores).

	30 June 2005 *persons*	31 December 2004 *persons*
C&C stores	1125	982
Distribution Centres	322	304
Head Office	175	152
Total	**1622**	**1438**

2. Material Business Events

<u>Completion of the takeover of MHC stores</u>

At the end of the 2nd quarter all 12 stores taken over from MHC were selling under the Eurocash chain. Total expenditures on the takeover and launch of the said stores amounted to PLN 17.5 million. Presently the said outlets are profitable.

The number of Cash & Carry discount stores grew at the end of June 2005 to 92 from 83 at the end of 2004. The Company opened 13 new stores, including:

- 12 taken over from MHC (Częstochowa, Jaworzno, Racibórz, Zawiercie, Opole, Cieszyn, Żywiec, Oświęcim, Kędzierzyn Koźle, Rybnik, Nysa, Wodzisław),
- 1 opened independently (Starogard Gdański).

At the same time 4 stores were closed: in Ruda Śląska (poor technical condition of the building), Bielsko-Biała (fire), Opole and Kędzierzyn Koźle (due to the opening of new ones in the said towns).

Development of the chain of “abc” shops

As at the end of June 2005 the chain comprised around 2000 shops (1892 at the end of 2004).

Obtaining the status of a public company and launch on the Warsaw Stock Exchange

The Public Offering lasting from 18 to 31 January 2005 was successful – 57,483,900 shares, constituting 45% of the share capital, were allotted to new investors. Shares of Eurocash S.A. were launched on the Warsaw Stock Exchange on 4 February 2005.

General Meeting

The Ordinary General Meeting of Eurocash S.A. was held on 11 April 2005. The General Meeting, among other things:

- accepted resignation of Mr Ronaldo Coelho de Magalhães and Mr António José Santos Silva Casanova from the membership in the Supervisory Board, and appointed Mr Ryszard Wojnowski and Mr Janusz Lisowski as members of the Supervisory Board;

- resolved not to pay dividend for 2004;

- amended the Articles of Association, the Regulations of the General Meeting and the Regulations of the Supervisory Board of Eurocash S.A.

The full text of resolutions was included in the current report no. 32/2005 on 11 April 2005.

Incentive programme

Eurocash approved a share option plan for specified employees of the Company. The plan was divided into two tranches, allocation will be made based on employee results achieved in 2004 and 2005 and in the years 2008 and 2009 respectively. The employees have to hold bonds giving the right to acquire shares for at least 3 years and at the same time remain employees of Eurocash. Each tranche will consist of 3,193,550 share options (the total of 6.387.100 share options was allocated for both tranches). The share price in the first tranche will be established based on the price of the public offering, while in the second tranche it will be based on the market price.

3.Material Risk Factors and Threats

External factors

Macroeconomic situation. Purchasing power of the population

Economic slowdown, drop of the purchasing power and decrease in household expenditures for consumption may have a negative impact on the sales volume of the Company.

The structure of the FMCG retail distribution market in Poland

In 2004 the prevailing form of FMCG retail distribution was a traditional distribution channel – approx. 60% as at the end of 2004. Such high share (as compared to other European countries) results from a low concentration of population in the area of the country and bad housing conditions, stimulating more frequent purchases. This situation is advantageous for the Company whose discount stores supply small and mid-sized shops located off large agglomerations. A growth in the share of modern distribution will reduce the potential market of the Company's business.

The structure of the traditional FMCG distribution channel. Competition

According to the estimates of the Company, there is approx. 6000 entities operating on the traditional FMCG distribution market, the majority of which are local stores. That enables price advantage of Eurocash, which operates a country-wide sales chain. Market consolidation, appearance of new strong entities could have a negative impact on the level of margins.

Weather conditions

During summer, particularly in smaller tourist towns, weather conditions influence the level of sales. That is due to the fact that when the weather is good, tourists more intensively travel from larger to smaller towns where the position of the Company is stronger. Besides, better weather stimulates higher purchase of beverages being a significant sales item.

Internal factors

IT systems

An efficient, uniform IT system allows for centralised and effective management of business processes, allowing for an exact analysis of profitability of particular products and particular discount stores, which guarantees high safety of the conducted business. Possible disturbances in the system operation would be a threat for the business of the Company. Orderly integration of any new into company system may represent a limitation to growth that can be achieved in a given period.

New investments

Eurocash S.A. wants to be an active participant in the process of market consolidation by taking over smaller stores. Taking over new stores the Company bears numerous material risks connected among others with a possible wrong assessment of the location acquired in terms of type of customers, structure of sales and condition of the local market.

Development perspectives

Opening of new stores

Eurocash plans to develop the chain of its discount stores according to its budgeted target. It is possible that several new Cash & Carry discount stores will be opened in 2005. Their number will depend on the possibility of finding a suitable location in towns which are most attractive for the Company. Eurocash S.A. estimates that in a long-term perspective it is economically justified to launch further stores of the said format in Poland, although in the long-term a saturation effect is to be expected.

Taking over of current entities

Eurocash S.A. intends to take over the current FMCG stores. The speed of this process depends on the possibility to acquire attractive enterprises for a favourable price.

Development of new sales formats

Presently Eurocash conducts its sales in the format of Cash & Carry discount stores. It is possible to expand cautiously the forms of FMCG distribution by new forms. Presently a pilot sales programme, i.e. Pre-selling (order collection by sales representatives, goods delivery and cash collection by a driver) is being introduced in two stores. Goods distribution formats may be expanded also by taking over entities conducting sales in the form other than Cash & Carry.

4. Financial Standing and Business Results of the Company

Profit and loss account

in PLN million	1st half 2005	1st half 2004	% change 2005/2004
Net sales of products, goods and materials, including:	**802.4**	**715.5**	**12.1%**
1. Net sales of products (benefits from suppliers and fees from "abc" shops)	20.7	12.3	68.4%
2. Sales in Cash & Carry discount stores	781.7	703.3	11.2%
3. Sales in stores operating in the 1st half of 2005 and the 1st half of 2004	716.4	666.0	7.6%
Cost of sold goods and materials:	695.4	626.0	11.1%
Gross profit (loss) on sales	**107.0**	**89.5**	**19.5%**
Costs of logistics	9.0	9.4	-4.3%
Costs of stores operation	50.6	44.0	15.0%
Number of stores at the end of the period	93.0	80.0	16.3%
Costs of general management	27.5	17.9	53.9%
Profit (loss) on sales	**19.8**	**18.1**	**9.7%**
Other operating income	1.2	0.7	79.6%
Other operating costs	3.9	8.6	-54.4%
Operating profit (loss) – EBIT	**17.1**	**10.1**	**69.5%**
EBITDA (EBIT+Amortisation+Depreciation)	**29.4**	**13.6**	**115.9%**
Financial income	0.9	2.4	-63.2%
Financial costs	2.4	3.4	-31.2%
Profit (loss) on business activity	**15.6**	**9.1**	**72.7%**
Gross profit (loss)	**15.6**	**9.1**	**72.7%**
Income tax	3.4	1.3	168.6%
Net profit (loss)	**12.2**	**7.7**	**57.0%**

Profitability ratios

	1st half 2005	1st half 2004
Gross profit margin on sales	**13.3%**	**12.5%**
EBITDA	**3.7%**	**1.9%**
Operating profit margin	**2.1%**	**1.4%**
Net profit margin on sales	**1.5%**	**1.1%**

In the 1st half of 2005 Eurocash saw a significant growth in income. It resulted from 7.6% growth in stores operating in the 1st half of 2005 and the 1st half of 2004 (according to the Management Board of Eurocash S.A. the said growth was higher than the growth of the whole market on which the Company operates), the opening of new stores and more benefits from suppliers (higher level of purchase, larger chain of sales). The growth in sales was accompanied by the growth in gross margin to 13.3 %, which proves that the growth in turnovers was not stimulated by a price cut and the margin structure of sold products further improved.

Despite the increased number of served stores, the Company was able to reduce costs of logistics by 4.3% (the whole transport of goods is served by external companies). The costs of store operation grew proportionally to the increase in the number of stores. New stores, taken over from MHC, have not reached the average sales level of other stores yet (this process will last up to 2 years).

The costs of management grew substantially in the analysed period, which was mainly a consequence of:

1. The transfer of costs of know-how acquired from Politra B.V. In the 1st half of 2004 payments under the licence agreement were recorded in other operating costs – the amount of PLN 5,2 million. After a one-off acquisition of the licence in August 2004, the cost of its amortisation increased the costs of management – in the 1st half of 2005 it amounted to PLN 2,72 million.

2. A growth in costs of IT system maintenance by PLN 3,8 million., connected with the implementation of the SAP system. The system was implemented in August 2004.

3. A growth in personnel costs by PLN 3 million. (mainly because in the 1 st half of 2004 the company's structure was not completely formed yet).
The current organisational structure guarantees correct functioning of the Company, therefore no significant increase in the said item is expected in the years to come.

In the analysed period Eurocash S.A. improved all profit margins on sales.

Cash flows

in PLN million	**1st half 2005**	**1st half 2004**
Net operating cash flow, including:	**53.40**	**14.63**
Net profit (loss)	12.2	7.8
Depreciation	12.3	6.9
Change in working capital	26.8	**(4.80)**
Other	2.1	4.7
Net investment cash flow	**(18.15)**	**(5.84)**
Net financial cash flow	**(0.77)**	**0.2**
Total cash flows	**34.48**	**9.00**

In the first half of 2005 the operating activity of Eurocash S.A. generated PLN 53.4 million. The said amount comprised mainly net profit, amortisation and change in working capital. A negative cycle of cash conversion allows to generate financial surplus at growing sales.

Working capital turnover

turnover in days	**1st half 2005**	**1st half 2004**
1. Stocks turnover	26.1	25.7
2. Receivables turnover	7.8	9.6
3. Liabilities turnover	58.2	57.0
4. Operating cycle (1+2)	33.9	35.3
5. Cash conversion (4-3)	**-24.3**	**-21.7**

Main domestic and foreign investments

In the 1st half of 2005 the Company made no foreign investments. Domestic investments are presented in the below table:

in PLN thousand	**1st half 2005**
Investment expenditures, including:	**18 563**
Connected with acquisition and improvement of MHC stores	17 212
IT system improvement	1 314
Other	37

Liquidity

The below table presents the basic profitability ratios:

	1st half 2005	**1st half 2005**
Current liquidity	0.89	1.14
Quick liquidity	0.43	0.68
Cash liquidity	0.27	0.50

The specificity of the Company's business (cash sales, long payment terms to suppliers) allows to keep low liquidity ratios. At the end of June 2005 Eurocash S.A. held PLN 68.4 million worth of free funds. The Company intends to use them effectively by way of investments and payment of dividends in the years to come. That may result in further reduction of liquidity ratios, not threatening timely payment of liabilities. Presently the Issuer is capable of paying its liabilities and can see no threats connected therewith.

Presently the Company holds PLN 10 million worth of credit facility /overdraft in a current account/. As at 30 June 2005 the said overdraft was unused in its entirety.

Balance sheet

The volume of fixed and current assets, equity, liabilities and provisions for liabilities, as well as their share in the total value of assets is presented in the below table:

in PLN million	**30 June 2005**		**31 Dec 2004**		**30 June 2004**	
Fixed assets	186,1	*45%*	178,6	*49%*	126,3	*33%*
Current assets	223,2	*55%*	188,6	*51%*	254,3	*67%*
Total assets	**409,4**		**367,1**		**380,6**	
Equity	155,2	*38%*	142,7	*39%*	128,4	*34%*
Liabilities and provisions for liabilities	254,2	*62%*	224,5	*61%*	252,2	*66%*
Total liabilities	**409,4**		**367,1**		**380,6**	

Fixed assets coverage with equity deteriorated compared to 30 June 2004, due to the know-how licence acquirement form Politra BV in the second half of 2004. The cost of this licence increased fixed assets value. Higher share of equity in total liabilities (increase from 34% to 38%) is a positive trend.

5. Additional information

Events after 30 June 2005, having material impact on the Company's business

After 30 June 2005 till the day of publishing of this report there were no events having material impact on the Company's business.

Changes in the membership of the Supervisory Board and the Management Board

With Resolution No 16 on 11 April 2005 the Ordinary Shareholders' Meeting made the following changes to composition of the Company's Supervisory Board:

1. Accepted resignations from the position of the Supervisory Board members made by Mr. Ronaldo Coelho de Magalhães and Mr. António José Santos Silva Casanova; and

2. Appointed Mr. Ryszard Wojnowski and Mr. Janusz Lisowski for the Supervisory Board members.

Supervisory Board

As at 30 June 2005 the Supervisory Board was composed of:

Joao Borges de Assuncao – Chairman of the Supervisory Board
Ryszard Wojnowski – Member of the Supervisory Board
Janusz Lisowski – Member of the Supervisory Board
Geoffrey Crossley – Member of the Supervisory Board
Eduardo Aguinaga – Member of the Supervisory Board

Management Board

As at 30 June 2005 the Management Board was composed of:

Luis Manuel Conceicao do Amaral – President of the Management Board
Rui Amaral – Member of the Management Board
Katarzyna Kopaczewska – Member of the Management Board
Arnaldo Guerreiro – Member of the Management Board
Ryszard Majer – Member of the Management Board
Pedro Martinho – Member of the Management Board.

Shares held by members of managing or supervising bodies

As at 30 June 2005 Mr. Luis Manuel Conceicao do Amaral, President of the Management Board of Eurocash S.A., held directly and indirectly 55% share in Eurocash S.A.

According to the information of the Company, out of all members of the managing and supervising bodies only Mr. Luis Manuel Conceicao do Amaral (President of the Management Board) holds – directly and indirectly – 70,258,100 shares in Eurocash S.A. (55% of all issued shares). Besides, other Management Board members were granted a conditional right to acquire "A" bonds giving right to acquire "B" shares for PLN 3.10. A condition to acquire the right to take up bonds is performance of the function for three years starting from 1 December 2004.

The Management Board members conditionally eligible (together with the number of shares a Management Board member has the right to acquire) are:

Rui Amaral – Member of the Management Board – 643,000 shares
Arnaldo Guerreiro – Member of the Management Board – 483,000 shares
Pedro Martinho – Member of the Management Board – 323,000 shares
Katarzyna Kopaczewska – Member of the Management Board – 164,000 shares
Ryszard Majer – Member of the Management Board – 164,000 shares.

Shareholders holding at least 5% of the total number of votes in the General Meeting

		30 June 2005			
Shareholder	Shares	Number of shares	% of the share capital	Number of votes	% of the total number of votes
1. Luis Manuel Conceicao do Amaral (directly and indirectly through Politra B.V., a subsidiary)	Eurocash S.A.	70,258,100	55 %	70,258,100	55%
2. AIG Otwarty Fundusz Emerytalny [*open-end pension fund*]	Eurocash S.A.	6,400,000	5.01%	6,400,000	5.01%

Significant agreements

In the 1st half of 2005 the Company did not conclude any agreements which, in accordance with the Regulation of the Council of Ministers on informational obligations of public companies, would be deemed significant. For commercial agreements, the criterion of deeming an agreement significant is 10% of sales revenues.

Bond issue

Pursuant to the resolution of the Management Board of 14 March 2005 Eurocash issued the total of 255,484 unsecured, interest-free and dematerialised inscribed bonds of a par value and issuing price of 1 grosz (PLN 0,01), with a priority right, in two series:

- 127,742 "A" bonds each with the right to subscribe 25 "B" ordinary bearer shares having priority over shareholders of the Company;
- 127,742 "B" bonds each with the right to subscribe 25 "C" ordinary bearer shares having priority over shareholders of the Company.

"B" and "C" bonds were taken up by CA IB Securities S.A., which will sell the same to eligible persons under the incentive programme carried out by Eurocash S.A. Detailed rules of the incentive programme were described in current report no. 26/2005.

The first part of the incentive program has involved 102 employees.

Besides the aforesaid, in the 1st quarter of 2005 Eurocash S.A. issued, redeemed and repaid no debt or equity securities.

Transactions with related entities, if the value of a single transaction or of all transactions concluded with a given related entity over 12 months exceeds PLN equivalent of EUR 500,000

In the 1st half of 2005 the Issuer concluded no transactions where the value of a single transaction or of all transactions concluded with a given related entity over 12 months exceeded PLN equivalent of EUR 500,000.

Agreement with an entity authorised to audit financial statements

Eurocash S.A. made on 31 May 2005 an agreement with HLB Frąckowiak i Wspólnicy Sp. z o.o., regarding the following services:

1. Auditing the financial statements for 2005 and drawing up a relevant report.
2. Reviewing the interim financial statements for the period from 1 January to 30 June 2005 and drawing up a relevant report.
3. Participating of Audit Partner in the meetings of the Audit Committee and in the Annual General Meeting of Shareholders.

The remuneration under the agreement totals PLN 70,500 + VAT due, including:

1. PLN 38,600 regarding the services referred to in section1
2. PLN 27,400 regarding the services referred to in section 2
3. PLN 4,500 regarding the services referred to in section 3

Other information

- In the 1st half of 2005 the Company did not use any financial instruments.
- There was no sale in foreign currencies in the 1st half of 2005.
- The Company did not publish any financial projections for 2005.
- There were no changes in the rules of managing the Company in the 1st half of 2005.
- In the 1st half of 2005 the Company concluded no agreements which might change proportions of shares held by the current shareholders, except for the incentive programme described above.
- Information about loans, sureties and guarantees is included in additional note.
- As at 30 June 2005 there were no outstanding advances, credits, loans, guarantees or sureties granted by the Company to members of managing or supervising bodies.
- Remuneration of members of managing and supervising bodies is presented in additional note.

Ratios definitions

Gross profit margin on sales – ratio of gross sales profit to net sales revenue.
EBITDA margin – ratio of EBITDA (operating profit plus amortization) to net sales revenue.
Operating profit margin – ratio of operating profit to net sales revenue
Net profit margin on sales – ratio of net profit to net sales revenue.
Stocks turnover – the ratio of balance of stocks at the end of period to net revenue for period, multiplied by the number of days in the period.
Receivables turnover – the ratio of balance of trade receivables at the end of period to net revenue for period, multiplied be the number of days in the period.
Liabilities turnover – the ratio of balance of trade liabilities At end of period, net of change in stocks, to operating expences for period, multiplied by the number of days in the period
Operating cycle – the sum of stocks turnover and receivables turnover.
Cash conversion cycle – the difference between operating cycle and liabilities turnover.
Current liquidity –ratio of current assets to short term liabilities as At the end of a given period.
Quick liquidity – ratio of current assets, net of stocks, to short-term liabilities as at the end of given period
Cash liquidity – ratio of cash to short term liabilities as at the end of given period

Luis Amaral President of the Management Board	Ryszard Majer Member of the Management Board
Pedro Martinho Member of the Management Board	Arnaldo Guerreiro Member of the Management Board
Rui Amaral Member of the Management Board	Katarzyna Kopaczewska Member of the Management Board

Poznań, 30 September 2005