

**FINANCIAL ANALYSIS BY THE MANAGEMENT BOARD
FOR THE PERIOD ENDED 30 JUNE 2007 AND 30 JUNE 2006**

	6 months PLN000	6 months PLN000	Change
Sales from continuing operations	620 935	464 921	+33,6
Sales from discontinued operations	0	87 663	-100,0
EBITDA from continuing operations*	35 165	23 405	+50,2
<i>as % of sales</i>	<i>5,66%</i>	<i>5,03%</i>	
Net profit*	10 804	1 341	+705,6
<i>as % of sales</i>	<i>1,74%</i>	<i>0,24%</i>	
Revaluation of financial instruments	2 859	9 048	-68,4
Net profit including revaluation of financial instruments	13 663	10 389	+31,5
Cost of the incentive share option plan	-2 891	-1 866	-54,9
Net profit	10 772	8 523	+26,4
Number of Retail and Service Outlets **	326	259	
Total Net Retail Area	126 260	96 978	
* Result excluding financial instruments and costs of the incentive programmes in the form of share options			
** as at 30 June - continuing operations			

Significant events in the EM&F Group in the 6-month period ended 30 June 2007

- Net sales revenues from the Group's continued operations increased by 33.6%, to PLN 620.9 million in the first half of 2007 (in the first half of 2006 - PLN 464.9 million). Sales dynamics were high in all the Group companies operating on the current basis.
- EBITDA on continued operations (excluding financial instruments and the cost of the incentive share option plan) increased by 50.2%, to PLN 35.2 million (in the first half of 2006 - PLN 23.4 million).
- The net profit on the Group's core operations (excluding financial instruments and the cost of the incentive share option plan) increased by 705.6%, to PLN 10.8 million in the first half of 2007 compared with PLN 1.3 million in the first half of 2006.
The total net profit of the EM&F Group in the first half of 2007 amounted to PLN 10.8 million (PLN 8.5 million in the first half of 2006) which is an increase of 26.4%. This result includes the loss on the sale of shares in Coffeheaven in the first half of 2007. However, it should be noted that at the same time, in the first half of 2007, the Group noted cash inflows of PLN 19 million on the sale of those shares, and in total the investment brought a profit of PLN 12 million which is twice the amount which had been invested.
- The Group incurred capital expenditure of PLN 73.0 million which is double the capital expenditure incurred in the same period of 2006 (PLN 35.8 million).
- The Group opened 48 new points of sale (including 5 language schools, 3 acquired Mango shops and 3 Zara shops), thus increasing the total net commercial floor space to 18 256 sq. m.
- At the end of June 2007, the Group's retail and service chain totalled 326 POS (including Zara shops and excluding Sephora) with a total net commercial floor space of 126,260 sq. m.
- In the first half of 2007, the Group opened flagship Hugo Boss and Mexx brand shops in Złote Tarasy in Warsaw.
- In the first half of 2007, the Group also opened the first shops of the newly acquired franchise brands: Palmers and Spring, and the first new commercial format of Hugo Boss in Poland – Boss Shoes & Accessories.
- Ultimate Fashion company purchased 3 Mango shops operating in Poznań, Szczecin and Wrocław. As a result of the transaction, Ultimate Fashion is the sole franchisee of the brand in Poland.
- The conclusion of negotiations relating to the distribution of the Jennyfer brand in Poland and the opening of the first shop of this brand in Wrocław.
- In the first half of 2007, Optimum Distribution concluded two new contracts for the distribution of cosmetics of the French brand Gatineau and the German brand Micro Cell, as well as a contract for expanding the distribution of Azzaro brand products in Poland (before, the brand had been distributed in the Czech Republic and in Slovakia by the Group's subsidiary - Optimum Distribution CZ&SK s.r.o.).
- In the period under discussion, Empik started cooperating with P4 – the new PLAY mobile telephone operator. On the basis of a cooperation agreement, Empik became a PLAY dealer and engages in sales of post-paid services and equipment offered by P4.
- Smyk noted very good results in sales of clothes and footwear (under its own label Cool Club) in the spring-summer season.
- Learning Systems Poland successfully closed the first period of its B2B operations.
- EM&F continued the process of integrating the Bukva and Kinderland chains acquired in the previous year and operating in the Ukraine, and adapted them to Group standards. Moreover, the Group opened 2 new shops: Smyk and Empik in the Ukraine.

- The Group continued the logistic and IT platform/infrastructure development and enhancement project under the joint project with Accenture. The project covered the whole Group.

Economic and market conditions

1. The macroeconomic situation in Poland

In the second quarter of 2007 the pace of economic growth was slightly slower than that noted in the first quarter of 2007. According to IBnGR¹ estimates, the pace of growth of the Gross Domestic Product was 5.8 (in the second quarter of 2006: – 6.0).

According to the Central Statistical Office (GUS) in the first half of 2007, retail sales dynamics (in fixed prices) were 15.6% higher than in the prior year, and in the second quarter of 2007 the increase was lower than in the first quarter (14.1% compared with 17.4%). In the segment in which EM&F Group companies operate it amounted to 10.6%.

In the first half of 2007, the prices of consumer goods and services increased more than in the prior year; however, the prices of clothes and shoes kept falling – by 4.9% (in June 2007, shoes were 6.5% cheaper than in December 2006, and clothes were 4.3% cheaper). During the year, shoes prices dropped by 10.5%, and clothes prices by 6.1% as at June 2007.

Economic forecasts until the end of the year indicate further positive market trends in the subsequent quarters. The public feeling in respect of individual consumption also remains at a favourable level. Those factors coupled with the dropping unemployment and a high increase in spendable income are conducive to the Group's further development.

According to IBnGR estimations, in the second half of the year, the pace of economic growth will stall slightly: in the third quarter – 5.6%, in the fourth quarter – 5.3%. On an annual scale, GDP in Poland will increase by 6.0% (a result similar to that in 2006). In the second half of the year, high domestic demand will be maintained: third quarter – 7.2%, fourth quarter – 7.7%.

2. Market environment

Similarly to the last few years, during the next several years in Poland the commercial floor space will continue to expand. As at the end of 2006, modern commercial space in Poland amounted to ca. 6,300 thousand sq. m. Another 600 thousand sq. m is being constructed and a further 1,000 sq. m is in the final phases of planning and designing. According to the Retail Research Forum, in the first half of 2007 a total of 224,500 sq. m of modern commercial space was commissioned for use in the commercial centres of the eight largest agglomerations in Poland.² By the end of 2007 in the eight largest Polish agglomerations nearly 125,500 sq. m more will be commissioned for use. In 2008 an estimated additional 441,300 sq. m gross of modern commercial rental space will be built.

The Group participates in this development which translates into dynamic increases in the number of sales points being opened. In the first half of 2007, the Group opened 48 POS (including 5 language schools, 3 acquired Mango shops and 3 Zara shops).

It is expected that most of the new shop openings in 2007 will be realized; however, the realization of the development plan depends strictly on the timeliness of the opening of particular commercial centres and the timeliness of transferring the completed premises to

¹ i.e. Institute of Market Economy Research

² Including: Warsaw (with Raszyn and Marki), the Katowice conglomeration, Gdańsk-Gdynia-Sopot, Łódź, Kraków, Wrocław, Poznań, Szczecin.

the Group companies. If there are delays, the planned opening of the new shops will be transferred to 2008.

The Group's results in the first half of 2007

Net sales and sales equivalents

Net sales from the Group's continued operations increased by 33.6% in the first half of 2007, to PLN 620.9 million (in the first half of 2006:– PLN 464.9 million) due to the high sales dynamics in the existing shops and newly opened points of sale.

PLN' 000	6 months 2007	6 months 2006	2007 vs 2006 %
Revenue from continuing operations	620 935	464 921	+33,6%
<i>Fashion & Beauty</i>	134 525	94 316	+42,6%
<i>Media & Entertainment</i>	486 410	370 605	+31,2%

Fashion and Beauty

Net sales in the Fashion and Beauty segment increased by 42.6% in the first half of 2007, to PLN 134.5 million (in the first half of 2006 - PLN 94.3 million).

This increase is related to the dynamic development of the Group's retail franchise operations which as at the end of the first half of 2007 comprised 73 Ultimate Fashion shops, including 29 newly opened ones. It is worth mentioning that the number of shops opened in the first half of 2007 was twice as high as the number of shops opened in the whole of 2006. In the first half of 2007, the following events occurred: flagship shops of Hugo Boss, Mexx and Palmers were opened in the Warsaw Złote Tarasy commercial centre, the first new commercial format of Hugo Boss – Boss Shoes & Accessories and the first Spring brand (specializing in sales of shoes and accessories for adolescents) shop in Europe were opened. The development of the retail chain is supported by the high sales dynamics in the existing shops which amounted to 54.8% in the first half of 2007.

Moreover, Group companies specializing in wholesale trading (Optimum Distribution Polska and Optimum Distribution CZ&SK) noted high sales dynamics as a result of widening the scope of distribution and favourable tax changes (a decrease in excise duty on cosmetics). Sales dynamics are especially high in the luxury segment where sales in Poland increased by 26% compared with the first half of 2006.

Media and Entertainment

Net sales in the Media and Entertainment segment increased by 31.2% to PLN 486.4 million in the first half of 2007 (in the first half of 2006: - PLN 370.6 million).

Such high sales dynamics were maintained by all companies operating in this segment. Sales in Empik and Smyk companies increased by 29.8% and 33.% respectively, while high sales dynamics in the existing points of sale of 25.2% and 29.9% in Empik and Smyk respectively were maintained.

Very good results were also noted in the language school chain – sales increased by 27.2% compared with the prior year mainly as a result of a significant increase in the number of students participating in language courses.

In the period under discussion, a total of 11 shops and 5 language schools were opened in this segment.

Empik continued its programme for introducing new product lines – sales of products of the mobile operator P4 – PLAY in 47 Empik outlets.

Additionally, Empik is developing new distribution channels:

- Empik cafés which in the first and second quarter of 2007 noted a fourfold increase in sales compared with the fourth quarter of 2006, when they had started operating,
- empik.com, whose sales dynamics increased by over 157% in the first half of 2007 compared with the analogous period of 2006.

Number of Retail and Service Outlets	6 months 2007	6 months 2006
Media & Entertainment	237	205
EMPiK Stores	113	77
EMPiK Foto Labs	17	35
EMPiK and Speak Up Language Schools	64	58
SMYK	43	35
Fashion & Beauty	73	41
Ultimate Fashion	73	41
TOTAL No. Of Outlets	310	246
Zara Polska	16	13
TOTAL No. Of Outlets	326	259

Total Net Retail Area	6 months 2007	6 months 2006
Media & Entertainment	87 390	71 614
EMPiK Stores	52 050	42 041
EMPiK Foto Labs	-	-
EMPiK and Speak Up Language Schools	-	-
SMYK	35 339	29 573
Fashion & Beauty	15 645	7 485
Ultimate Fashion	15 645	7 485
TOTAL ex. Zara PL	103 035	79 100
Zara Polska	23 225	17 878
TOTAL Retail Area	126 260	96 978

EBITDA

EBITDA on continued operations (excluding financial instruments and the cost of the share option incentive plan) increased by 50.2% to PLN 35.2 million (in the first half of 2006 – PLN 23.4 million).

The increase in EBITDA results mainly from the very good sales dynamics in the Group companies.

An increase in EBITDA was also noted from 5.03% in the first half of 2006 to 5.66% in the first half of 2007. This resulted from an increase in effectiveness in the Fashion and Beauty segment due to effective cost control.

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Sales from continuing operations	620 935	464 921	+33,6
Sales from discontinued operations	0	87 663	-100,0
EBITDA from continuing operations*	35 165	23 405	+50,2
<i>as % of sales</i>	<i>5,66%</i>	<i>5,03%</i>	
Revaluation of financial instruments	3 617	9 721	-62,8
EBITDA from continuing operations including revaluation of financial instruments	38 783	33 126	+17,1
Costs of the incentive programmes in the form of share options	-2 891	-1 866	-54,9
EBITDA from continuing operations including financial instruments and the cost of the incentive share option plan	35 892	31 260	+14,8

**excluding financial instruments and costs of the incentive programmes in the form of share options*

PLN' 000	6 months 2007	6 months 2006	2007 vs 2006 %
EBITDA from continuing operations including financial instruments and costs of the incentive programmes in the form of share options	35 892	31 260	+14,8%
<i>Fashion & Beauty</i>	11 722	2 750	+326,3%
<i>Media & Entertainment</i>	29 172	24 225	+20,4%
<i>Other</i>	-5 002	4 284	-216,8%

Fashion and Beauty

An extremely high increase in EBITDA was noted of 326.3% to PLN 11.7 million in the Fashion and Beauty segment, whereas in the first half of 2006 it had amounted to PLN 2.8 million.

The increase in EBITDA to a large extent results from a significant increase in franchise sales characterized by a low share of costs.

The increase in sales and margins on the Group's wholesale operations, favourable foreign currency rates and tax changes (abolishing excise duty on cosmetics) with a simultaneous drop in operating expenses also had an impact on the increase in this segment's results.

Media and Entertainment

EBITDA in the Media and Entertainment segment increased by 20.4% to PLN 29.2 million in the period under discussion (in the first half of 2006: - PLN 24.2 million).

This increase is the result of high dynamics of sales in the main companies of the segment, i.e. Empik, Smyk and LSP, both in the existing and the newly opened shops, and an improvement in profitability, mainly in Empik.

Other

The negative EBITDA on other operations amounted to PLN 5.0 million compared with the positive EBITDA of PLN 4.3 million in the respective period of the previous year. This drop is mainly the result of a loss on the sale of shares in Coffeheaven in the first half of 2007, calculated based on the fair value of the shares. However, it should be noted that at the same time, in the period under discussion the Group noted cash inflows of PLN 19 million in respect of the sale of the shares and in total the profit on the investment amounted to PLN 12 million, which is twice as much as the amount originally invested.

The following also had an impact on EBITDA on other operations: evaluation of financial instruments, cost of the incentive share option plan and operating profit of NFI EMF.

Net profit

EBITDA on the Group's core operations (excluding financial instruments and the cost of the share option incentive plan) increased by 705.6% to PLN 10.8 million in the first half of 2007 compared with PLN 1.3 million in the first half of 2006. This increase is the effect of exceptionally high sales dynamics in the Group's companies and is coupled with an improvement in profitability.

In the first half of 2007, the total net profit of the EM&F Group amounted to PLN 10.8 million (PLN 8.5 in the first half of 2006) which is an increase of 26.4%. The loss on sale of the shares in Coffeheaven in the first half of 2007 had an impact on this result.

However, it should be noted that at the same time in the period under discussion the Group noted cash inflows of PLN 19 million in respect of the sale of the shares and in total the profit on the investment amounted to PLN 12 million, which is twice as much as the amount originally invested.

In the first half of 2007, the Group recognized its share in the profit of Zara Polska of PLN 2.1 million (in the same period of the previous year the share amounted to PLN 2.0 million).

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Capital expenditure

The Group's capital expenditure incurred in the first half of 2007 amounted to PLN 73.0 million which means that it doubled compared with the same period of the previous year (when it amounted to PLN 35.8 million).

Such a significant increase in expenditure results mainly from expenditure incurred on the opening of new shops and schools which amounted to PLN 50.4 million in the first half of 2007, which is an over twofold increase in expenditure on continued operations compared with that incurred in the analogous period of 2006.

In the first half of 2007, the Group opened 48 POS, including 5 language schools, 3 acquired Mango shops and 3 Zara shops. Among other things, the Group opened its outlets in the four largest commercial projects launched in that period, i.e. in the Warsaw CH Złote Tarasy (10 shops), the second phase of the Stary Browar project in Poznań (7 shops), Pasaż Grunwaldzki in Wrocław (8 shops) and Lublin Plaza (8 shops).

In the period under discussion, 2 new Smyk and Empik shops were opened in the Ukraine, in the commercial centre in Dnipropetrovsk and in the Magellan commercial centre in Kiev.

Other capital expenditure was related to the rearrangement and modernization of the existing sales chain and the IT investments in progress.

PLN' 000						
Capital Expenditure	6 months 2007			6 months 2006		
	Total	New Outlets	Other	Total	New Outlets	Other
Fashion&Beauty	27 395	25 322	2 073	8 075	7 519	556
Media&Entertainment	44 760	25 028	19 731	25 108	13 179	11 930
TOTAL	72 155	50 350	21 804	33 183	20 698	12 486
Other	859	-	859	82	-	82
Discontinued	0	0	0	2 520	1 958	562
TOTAL	73 014	50 350	22 663	35 785	22 656	13 129

Fashion and Beauty

Capital expenditure in the Fashion and Beauty segment in the first half of 2007 amounted to PLN 27.4 million, whereas in the analogous period of the prior year – PLN 8.1 million.

Expenditure related to the development of the franchise shop chain – in the period under discussion Ultimate Fashion opened 26 shops with a total area of 7 313 sq. m. Additionally, in that period the company purchased 3 existing Mango brand shops located in Poznań, Wrocław and Szczecin, which makes it the sole franchisee of the Mango brand in Poland. The number of shops opened in the first half of 2007 was twice as high as the number of shops opened in the whole of 2006.

Other expenditure was related to the purchase of new computer equipment, fixtures and fittings, and software.

Media and Entertainment

Capital expenditure in the Fashion and Beauty segment in the first half of 2007 amounted to PLN 44.8 million, whereas in the analogous period of the prior year – PLN 25.1 million. The expenditure was related to investments in the sales network: in the period under discussion 7 Empik shops were opened (including one in the Ukraine), 4 Smyk shops (including one in the Ukraine) and 5 language schools with a total area of 6 943 sq. m.

Other expenditure was related mainly to the rearrangement of the Empik shops and IT investments.

The seasonal nature of the Group's activities

It should be emphasized that due to the specific nature of the industry in which the Group operates, a significant part of the Group's annual revenues is generated in the last quarter of the year, i.e. from October to December. In 2006, sales in the *Fashion and Beauty* and *Media and Entertainment* segments – generated in the second quarter of the year – amounted to 22.9% and 21.6% of the Group's annual revenues respectively, whereas sales realized at the end of the year, in the period from October to December, amounted to 37.0% and 37.9% respectively.

Continuing Operations excl. Zara Polska	2007			2006			2005			
	II	I	IV	III	II	I	IV	III	II	I
mln PLN										
Sales from continuing operations	325	296	427	239	247	218	337	195	201	187
as % of whole year sales			37,7%	21,2%	21,8%	19,3%	36,6%	21,2%	21,8%	20,3%
GM	141	118	182	97	104	88	145	76	82	72
GM %	43,5%	39,8%	42,7%	40,4%	42,2%	40,3%	43,0%	38,9%	40,8%	38,4%

Due to the fact that in the first half of the year a smaller portion of the annual revenues is generated and that it is the period of seasonal sales, which is especially important to the *Fashion and Beauty* and *Media and Entertainment* segments, the results earned in the period are usually lower than in the other periods of the year. At the same time, we should emphasize that in the last quarter of the year, not only are sales the highest, but also the highest margins are earned, which – with the simultaneous stable level of operating expenses means that a significant portion of the annual operating profit on the Group's basic activities is generated in the last quarter of the calendar year.

Significant events in the third quarter of 2007 and further pursuit of the development strategy:

In July 2007, revenues from the Group's continued sales increased by 43% compared with the analogous period of 2006.

By 21 August 2007, the Group had opened 3 further shops, i.e. Smyk and Empik in Kraków, and the new brand, Jennyfer, in Wrocław.

The EM&F Group consistently realizes its expansion strategy formed and implemented since the turn of 2004 and 2005 based on:

Further organic development:

In 2007, the Group is planning to incur capital expenditure on its development of ca. PLN 90-110 million and is planning on opening about 75-95 new shops with a total sales area of 25 to 30 thousand sq. m.

A further increase in sales in the existing shops is also planned.

Development of the business model:

1/ development of the existing concepts:

- new franchise brands in the Ultimate Fashion (Jennyfer) portfolio and further being negotiated;
- new brands in wholesale distribution in Poland (Gatineau, Micro Cell, Azzaro); further expansion of the product portfolio in Poland, the Czech Republic and Slovakia;
- new product lines in Empik: continued distribution of PLAY products (ca. 70 outlets by the end of 2007) and negotiations with other operators, further development of new categories – academic books, decorative goods, stationery and hobby items. Development of cafés in Empik outlets;
- changes in the assortment sold by Smyk –Cool Club brand to become a priority;
- in LSP – further development of correspondence courses, on-line teaching and courses for businesses.

2/ development of the business model by acquiring selected firms with profiles which are complementary to the existing Group business.

International expansion:

1/ the Ukraine

- Empik – transformation of the acquired bookstore to Empik's commercial format in 2007 and simultaneous opening of new Empik outlets;
- Smyk – transformation of the acquired shop chain to Smyk's commercial format and simultaneous opening of new Smyk shops;
- LSP – opening of the first language school by the end of 2007. Consecutive schools in 2008;
- franchise brands/ fashion – see item 3 below.

2/ Germany

- 2 further SMYK shops in Berlin in 2007 and preparations of plans for further development.

3/ Russia – the Ukraine – Kazakhstan

In July 2007, the Group concluded a conditional agreement for the purchase of 43.3% of shares in Maratex LTD. which would give EM&F 51% of the total voting rights. Maratex has a chain of 58 fashion shops (Esprit, Peacocks, Lulu Castagnette, InWear, Mantique) located in Russia, Kazakhstan and the Ukraine. Net sales of Maratex in 2006 amounted to EUR 28.4 million and in 2007 they are expected to double. The final conclusion of the transaction depends on several suspension covenants.

Potentially, the Group is also considering expansion into its other commercial formats in Russia.

Additionally, the Group is analyzing the further development of existing concepts and expanding its operations to other foreign markets such as Rumania.

Further development of on-line sales:

- 1/ integration of on-line sales with traditional shops and ordering systems in the shops;
- 2/ full re-launch of empik.com on the ATG platform in autumn 2007;
- 3/ further development of smyk.com.

The Group is planning and incurring significant capital expenditure on the development and enhancement of its logistic and IT infrastructure so as to adapt them to the consistently growing needs in this area, which are the natural consequence of the growing scale of activity both in Poland and in the neighbouring countries.