MANAGEMENT BOARD FINANCIAL ANALYSIS FOR 1Q 2010

Financial data for the three-month period ended 31 March 2010

Industry segments – core operations*

	Empik Group	Smyk Group	Language Schools	Fashion & Beauty	Other	TOTAL
Net sales	230 240	174 006	33 994	161 581	-	**599 821**
EBITDA	10 472	3 099	5 580	3 358	(798)	**21 711**
EBIT	1 702	(1 898)	4 137	(3 919)	(1 032)	**(1 010)**
Net profit / (loss)	2 787	(3 525)	3 397	(4 505)	(4 818)	**(6 664)**

Adjustments to valuation of financial instruments and valuation of the share-based incentive scheme

	Empik Group	Smyk Group	Language Schools	Fashion & Beauty	Other	TOTAL
EBITDA	**(1 354)**	**(1 307)**	**-**	**(1 055)**	**2 316**	**(1 399)**
- share-based incentive scheme valuation	(82)				(1 317)	**(1 399)**
- companies' liabilities arising from operational support from the holding	(1 272)	(1 307)		(1 055)	3 633	**-**
EBIT	**(1 354)**	**(1 307)**	**-**	**(1 055)**	**2 316**	**(1 399)**
- share-based incentive scheme valuation	(82)				(1 317)	**(1 399)**
- company liabilities arising from operational support from the holding	(1 272)	(1 307)	-	(1 055)	3 633	**-**
Net profit	**(1 112)**	**(1 663)**	**499**	**211**	**1 626**	**(439)**
- share-based incentive scheme valuation	(82)				(1 317)	**(1 399)**
- financial instruments valuation	-	(604)	499	1 065	-	**960**
- companies' liabilities arising from operational support from the holding	(1 030)	(1 059)		(854)	2 943	**-**

Industry segments – continuing operations (according to the financial statements – Note 2)

	Empik Group	Smyk Group	Language Schools	Fashion & Beauty	Other	TOTAL
Net sales	230 240	174 006	33 994	161 581	-	**599 821**
EBITDA	9 119	1 792	5 580	2 303	1 519	**20 313**
EBIT	348	(3 205)	4 137	(4 975)	1 285	**(2 410)**
Net profit / (loss)	1 675	(5 187)	3 896	(4 294)	(3 192)	**(7 102)**

** excluding financial instruments and share-based incentive scheme valuation*

Financial data for the three-month period ended 31 March 2009

Industry segments – core operations*'**

	Empik Group	Smyk Group	Language Schools	Fashion & Beauty	Other	TOTAL
Net sales	215 059	161 816	32 668	157 053	-	**566 596**
EBITDA	9 668	114	4 419	6 452	(3 835)	**16 818**
EBIT	378	(3 215)	3 250	520	(4 076)	**(3 143)**
Net profit / (loss)	(5 900)	(4 823)	2 716	(1 049)	14 817	**5 759**

Adjusted net profit / (loss) from core operations	*(5 900)*	*(4 823)*	*2 716*	*(1 049)*	*(1 756)*	***(10 814)***

Adjusted net loss differs from the net profit shown above by the result of the release of the provision for deferred tax on sale of minority shareholding in 2009

Adjustments to valuation of financial instruments and valuation of the share-based incentive scheme

	Empik Group	Smyk Group	Language Schools	Fashion & Beauty	Other	TOTAL
EBITDA	**(1 392)**	**(1 303)**	**-**	**(323)**	**1 643**	**(1 347)**
- share-based incentive scheme valuation	(184)				(1 823)	**(2 007)**
- financial instruments valuation	733	(1 303)		1 047	(1 147)	**633**
- companies' liabilities arising from operational support from the holding	(1 941)			(1 370)	4 613	**-**
EBIT	**(1 392)**	**(1 303)**	**-**	**(26 438)**	**1 643**	**(27 489)**
- share-based incentive scheme valuation	(184)				(1 823)	**(2 007)**
- financial instruments valuation	733			(1 047)	(1 147)	**633**
- goodwill impairment write-off (Maratex)				(26 115)		**(26 115)**
- company liabilities arising from operational support from the holding	(1 941)	(1 303)		(1 370)	4 613	**-**
Net profit	**(1 365)**	**(1 017)**	**-**	**2 721**	**561**	**900**
- share-based incentive scheme valuation	(184)				(1 823)	**(2 007)**
- financial instruments valuation	391	38		29 946	(1 353)	**29 022**
- goodwill impairment write-off (Maratex)				(26 115)		**(26 115)**
- companies' liabilities arising from operational support from the holding	(1 572)	(1 055)		(1 110)	3 737	**-**

Industry segments – continuing operations (according to the financial statements – Note 2)

	Empik Group	Smyk Group	Language Schools	Fashion & Beauty	Other	TOTAL
Net sales	215 059	161 816	32 668	157 053	-	**566 596**
EBITDA	8 276	(1 188)	4 419	6 130	(2 192)	**15 445**
EBIT	(1 014)	(4 518)	3 250	(25 917)	(2 433)	**(30 632)**
Net profit / (loss)	(7 266)	(5 840)	2 716	1 672	(15 378)	**6 660**

** excluding financial instruments and share-based incentive scheme valuation*

*** data for 2009 has been adjusted for the results of discontinued operations (Smyk Germany and Maratex Kazakhstan), similar to the data presented in the financial statements and the management board analysis for the 12 months of 2009.*

1Q 2010 – MATERIAL EVENTS

➢ retail network development

	31 December 2009		Openings in 1Q 2010		Closings in 1Q 2010		31 March 2010	
Subsidiaries per country	Number of outlets	Retail area	Number of outlets	Retail area	Number of outlets	Retail area	Number of outlets	Retail area
Poland								
Empik *	145	75 005	3	1 384			148	76 389
Empik Cafe	57	4 796	1	99	5	307	53	4 588
Empik Foto	10						10	
Learning Systems Poland	77		2				79	
Smyk ***	59	47 964	1	654			60	48 618
Ultimate Fashion	112	25 476	2	955	1	748	113	25 683
Amersport	13	1 179					13	1 179
Total	**473**	**154 420**	**9**	**3 092**	**6**	**1 055**	**476**	**156 457**
Ukraine								
Empik ***	22	5 004			3		19	5 004
Learning Systems Ukraine	5		1				6	0
Smyk	7	5 548					7	5 548
Maratex	24	6 570			1	230	23	6 340
Total	**58**	**17 122**	**1**		**4**	**230**	**55**	**16 892**
Russia								
Learning Systems Russia	4						4	
Smyk	4	2 623					4	2 623
Maratex	74	31 298	4	2 069	1	605	77	32 762
Total	**82**	**33 921**	**4**	**2 069**	**1**	**605**	**85**	**35 385**
Germany								
Spiele Max	46	69 614			3	3 042	43	66 572
Total	**46**	**69 614**			**3**	**3 042**	**43**	**66 572**
Turkey								
Smyk	1	988					1	988
Total	**1**	**988**					**1**	**988**
Romania								
Smyk	1	831					1	831
Total	**1**	**831**					**1**	**831**
Czech Republic								
Franchised / licensed brands	1	92					1	92
Total	**1**	**92**					**1**	**92**
TOTAL	**662**	**276 988**	**14**	**5 161**	**14**	**4 932**	**662**	**277 217**

In 1Q 2010, 14 outlets were opened while 14 ones were closed. As of the end of March 2010, the EMF Group's retail network consisted of 662 outlets of total net retail area of 277,217 m^2. The closing of 5 Empik Cafes shown in the table above involved the relocation of the cafes from the interior of Empik outlets to outdoor locations, for better exposure. Currently, the Group is focusing on selected, most profitable stores, mainly in the mainstream brand segment (Peacocks, New Look, River Island, Aldo). For now the Group has no plans to expand onto new markets.

➢ entry onto the e-book market

At the beginning of April 2010, Empik Group and Virtualo Sp. z o.o. signed a joint venture agreement, pursuant to which Empik took up 51% shares in the abovementioned company. The operations of Virtualo include preparation and distribution of digital content through Polish and foreign internet bookstores. Virtualo's current offer includes 1,250 e-books. Empik will be responsible for distribution of e-books via empik.com internet store. The joint venture of Empik and Virtualo signifies a breakthrough on the Polish e-book market. Virtualo's technology, know-how and experience combined with Empik's strong brand is to contribute to the growth of that relatively new market.

According to Virtualo's and Empik's forecasts, prices of digital content readers will decrease significantly within the next two years, which will contribute, along with the fast growth of the e-book offer, to popularisation of e-books. Empik will include e-books into the offer of empik.com, its internet bookstore, as soon as next summer.

➢ changes in portfolio

Optimum Group Polska has resigned from optical brands, while the Optimum Group the Czech Republic and Slovakia has discontinued the distribution of the following brands due to unsatisfactory results: Orlane, Givenchy, Guerlain, Kenzo, Rene Furterer, Phytomer, Bourjois, and Adriana Karambeu.

OPERATING RESULTS OF THE GROUP IN 1Q 2010

Since the publication of the results for 3Q 2009, the Group has extended the disclosure of its financial data to include additional classification by operating segments. We would like to draw attention to the fact that the data previously presented in the Media & Entertainment segment is currently divided into Empik Group, Smyk Group and Language Schools. The Fashion & Beauty segment is presented as before and continues to include data for franchised brands and wholesale distribution of cosmetics and sports products.

Revenues

Net sales of LTL by segments and regions

Sales in LTL group of outlets and language schools (PLN)	**% change 3 months 2010 vs. 3 months 2009**
EMPIK*	**2.2%**
SMYK (group of companies)	11.4%
LANGUAGE SCHOOLS	-6.5%
FASHION / FRANCHISED BRANDS (Ultimate Fashion, Maratex)	-2.3%
TOTAL	**3.5%**

Sales in LTL group of outlets and language schools (PLN – currencies translated at historical rates of exchange)	**% change 3 months 2010 vs. 3 months 2009**
EMPIK*	**2.2%**
SMYK (group of companies)	4.0%
LANGUAGE SCHOOLS	-6.5%
FASHION / FRANCHISED BRANDS (Ultimate Fashion, Maratex)	-5.6%
TOTAL	**0.5%**

* the data for Empik is shown together with internet operations

	% change 3 months 2010 vs. 3 months 2009
Empik	-1.6%
empik.com (internet)	88.6%
EMPIK TOGETHER with internet operations	**2.2%**

	% change 3 months 2010 vs. 3 months 2009
SMYK Poland (PLN)	8.4%
SMYK Ukraine (UAH)	12.7%
SMYK Russia (RUB)	19.5%
SMYK Turkey (TRY)	13.1%
Spielemax (EUR)*	13.6%

* data in local currency

	% change 3 months 2010 vs. 3 months 2009
ULTIMATE FASHION (PLN)	-10.2%
MARATEX RUSSIA (RUB)	6.5%
MARATEX UKRAINE (UAH)	3.8%

* data in local currency

	% change 3 months 2010 vs. 3 months 2009
LSP (PLN)	-6.5%
LSU (UAH)**	49.8%

* data in local currency
** data for LSU based on the company's stand-alone data

In 1Q 2010, total net sales in a comparable store group (LTL) increased by 0.5% compared with the similar period last year, or by 3.5% in constant currency. The main contributor to the growth was Smyk Group, with a yoy increase of 4.0%. The positive LTL sales growth at Smyk Polska was mainly caused by the success of the new promotional sale system, which was met with appreciation from customers and contributed to the sales growth. Price Points are clearly labelled retail areas with products grouped by price. Thanks to that system, the customers receive clear information concerning the offer and are able to locate quickly and easily a specific product available for a specific price. The positive LTL sales growth achieved by Smyk in Russia and Ukraine was mainly a result of growing brand awareness, a growing customer base, promotional sales and expansion of the offer, which now includes products purchased from local suppliers. The two-digit sales growth (in the local currency) at Spiele Max stores resulted mainly from the fact that in 2009 Easter was celebrated later – in the second quarter – while in 2010, Easter was celebrated at the beginning of April, and therefore holiday presents for children were purchased earlier, at the end of the first quarter. The LTL sales growth at Empik was mainly caused by the dynamic growth of internet sales (Empik.com). The LTL sales decrease at language schools resulted from the changes to sales structure - the number of cheap courses for children increased while the number of more expensive courses for adults decreased. Corporate language courses have fared well. In the first quarter, LS group signed two large contracts for the organisation of foreign language courses for the police force. In the fashion group, Maratex, which operates in Russia and Ukraine, achieved very good results. Both divisions achieved growth in the local currency, to which Peacocks and Esprit brands are the main contributors, due to their attractiveness to the customers on the Russian market. The lower yoy LTL sales at Ultimate Fashion resulted from the comparison to the high results in 2009, when sales was significantly affected by the aggressive markdown policy, related to the large inventories dating back to the end of 2008, when the crisis started. There were significantly fewer promotional sales in 1Q 2010.

Total net sales by segments

000 PLN		3 months 2010	3 months 2009	2009 vs. 2008 %
Net sales		**599 821**	**566 596**	***+5.9%***
	Empik Group	230 240	215 059	*+7.1%*
	Smyk Group	174 006	161 816	*+7.5%*
	Language Schools	33 994	32 668	*+4.1%*
	Fashion & Beauty	161 581	157 053	*+2.9%*

The Group's total net sales increased by 5.9% yoy. The 7.1% sales increase at Empik resulted from an increase in the number of customers (about 1.2% yoy) and an increase in average receipt value (about 3.3%). The increase in internet sales also had a significant effect on positive results. Among the reasons behind the sales growth at Smyk Group were the increase in the number of stores and the growth in the LTL group, described above. East European divisions recorded the highest growth increase. At Spiele Max, the improvement in results was affected by the date of Easter, which was earlier this year than last year, as described above. The sales growth at language schools resulted from the increase in the number of schools and consolidation of LSU (starting from 3Q 2009). The sales growth in the fashion group resulted mainly from the 2009 portfolio restructuring, which involved the replacement of less profitable brands with more profitable ones. Focus was made on the growth of very attractive mainstream brands (Peacocks, Aldo, River Island, and, starting from the beginning of 2010, New Look) offering trendy clothes, footwear and accessories. These brands are also characterised by high stock turnover. In the fashion group, better results were recorded by the companies operating on the East European markets, namely Maratex Russia and Ukraine. Small sales growth at Optimum Group, which is a part of the Fashion & Beauty segment, resulted mainly from the improving economic situation and also retail sales increase, which was noticeable starting from the end of 2009.

Gross margin

000 PLN	3 months 2010	3 months 2009	2010 vs. 2009 %	3 months 2010 Margin %	3 months 2009 Margin %	Change
Gross margin	**244 315**	**227 231**	***+7.5%***	***40.7%***	***40.1%***	***0.6***
Empik Group	73 220	70 794	*+3.4%*	*31.8%*	*32.9%*	*-1.1*
Smyk Group	71 223	66 400	*+7.3%*	*40.9%*	*41.0%*	*-0.1*
Language Schools	21 959	20 409	*+7.6%*	*64.6%*	*62.5%*	*2.1*
Fashion & Beauty	77 913	69 627	*+11.9%*	*48.2%*	*44.3%*	*3.9*

The Group's value gross margin increased by 7.5% yoy and the percentage margin increased by 0.6 percentage point. Empik's percentage margin decreased, mainly as a result of the increased proportion of internet sales. It should be also mentioned here that internet distribution, while having lower margins, achieves much higher EBITDA profitability than regular stores, which results from the significantly lower operating expenses. The percentage margin decrease at Smyk Group resulted from the impact of Spiele Max (the promotional sales, which took place in March instead of April due to the early Easter this year, neutralised the positive impact of the changes to the product mix). The other companies of the Group recorded margin increases. The percentage margin increase at Smyk Polska resulted from an increase in sales volume and reasonable pricing policy – the introduction of the Price Points concept and the successive introduction of new collections priced at usual levels. In Eastern Europe, percentage margin increase at Smyk resulted from the price increases – margins on children clothes were increased in the Ukraine. The margins in the Ukraine were further positively affected by the presence of a warehouse licensed to operate as a bonded warehouse, which lowers the cost of purchase. The increase in percentage margin at language schools resulted from the consolidation of LSU, the outlets of which have higher unit margins than LSP schools, and the optimising of consulting costs. Higher percentage margin at the Polish fashion division resulted from improved stock management compared to 2009 (significantly less promotional sales in 1Q 2010 compared with the comparable period of 2009). The percentage margin increase was also recorded at the Russian part of the fashion division, which resulted from improved inventory management and better sales of high-margin Esprit and Peacocks brands. The lower margins in Ukraine were introduced in order to adjust to the difficult macroeconomic situation through adjusting the prices to meet the demand. The percentage margin increase in Optimum Group resulted from the appreciation of PLN against EUR and USD and the increased sales, resulting from the improving economic situation, as well as the decreasing disinclination of large chains to large purchases.

EBITDA

000 PLN	3 months 2010	3 months 2009	*2009 vs. 2008 %*	3 months 2010 EBITDA % Margin	3 months 2009 EBITDA % Margin	Change
EBITDA from core operations	**21 711**	**16 818**	***+29.1%***	***3.6%***	***3.0%***	***0.6***
Empik Group	10 472	9 668	*+8.3%*	*4.5%*	*4.5%*	*0.0*
Smyk Group	3 099	114	*+2613.1%*	*1.8%*	*0.1%*	*1.7*
Language Schools	5 580	4 419	*+26.3%*	*16.4%*	*13.5%*	*2.9*
Fashion & Beauty	3 358	6 452	*-48.0%*	*2.1%*	*4.1%*	*-2.0*
Other	-798	-3 835	*+79.2%*			

The Group's EBITDA increased by 29.1% yoy. The 8.3% increase of Empik's EBITDA resulted mainly from the reduction of operating expenses (mainly the employee compensation and benefit expenses). The high EBITDA growth in Smyk Group resulted mainly from the increase of value gross margin at Spiele Max. Also of note in Smyk Group is the EBITDA growth in Russia and the Ukraine. The reasons for the Smyk's EBITDA growth on the Russian market include better sales and higher percentage margin with the operating cost largely remaining on the last year level (except of cost dependent on sales volume) as well as currency exchange gains (the appreciation of RUB). The EBITDA growth in the Ukraine resulted from the cost cuts (lease costs, remuneration costs). The EBITDA growth at language schools resulted from the consolidation of LSU and the savings implemented at LSP – the reduction of marketing costs by more than 30%, the reduction of remuneration costs by nearly 20% and the reduction of lease costs by about 8%. The negative EBITDA growth in the Fashion and Beauty segment resulted from the surplus of profit from the release of provisions for store closings over the store closing costs in 2009, as a decision was made in 2009 to continue operations at some stores which had been previously planned for closing, as such stores gradually increased profitability. Due to the sales growth, gross margin growth and foreign currency exchange gains, also Optimum Group recorded an EBITDA growth.

Net result

000 PLN	3 months 2010	3 months 2009	*2009 vs. 2008 %*
Net profit / (loss) from core operations	**-6 664**	**5 759**	***-215.7%***
Adjusted net profit / (loss) from core operations*	***-6 664***	***-10 814***	***+38.4%***
Empik Group	2 787	-5 900	*+147.2%*
Smyk Group	-3 525	-4 823	*+26.9%*
Language Schools	3 397	2 716	*+25.1%*
Fashion & Beauty	-4 505	-1 049	*-329.2%*
Other*	-4 818	-1 756	*-174.4%*

* Adjustment pertains only to the release of a provision for deferred tax related to the sale of minority shareholding in 2009

In 1Q 2010, the Group recorded loss of PLN 6.7 million compared with the adjusted loss of PLN 10.8 million in 1Q 2009 (the results in the last year was adjusted for the impact of the release of a PLN 16.6 million provision for deferred tax related to the sale of a minority shareholding).

The positive growth of net results at Empik resulted from tax optimisation and the lack of negative impact of the loss recorded in 2009 by the Ukrainian subsidiary. Smyk Group decreased the net loss compared to the previous year, but was still in the red. Smyk Polska financial expenses decreased significantly yoy, while amortisation increased (due to the openings of new stores at the end of 2009), which in the end resulted in the increased net loss. Smyk Rosja recorded a positive growth of the net result (the net loss decreased compared with the previous year), but the growth was lower than in the case of EBITDA, mainly as a result of higher amortisation, resulting from the store number increase and the increase in financial expenses. Smyk Ukraina and Spiele Max recorded net profit (resulting from EBITDA dynamics). The decrease in the net result in the Fashion & Beauty segment resulted from negative EBITDA dynamics, which resulted from the release of provisions in 2009. The 25.1% increase on the level of net profit of the language schools resulted from the consolidation of LSU and the EBITDA growth.

Capital Expenditure

000 PLN								
	3 months 2010				3 months 2009			
Capital Expenditures	Total	New Outlets	Payments of investment liabilities pertaining to previous years	Maintenance, rearrangement, modernisation and IT/Log projects	Total	New Outlets	Payments of investment liabilities pertaining to previous years	Maintenance, rearrangement, modernisation and IT/Log projects
EMPIK GROUP	**6 374**	536	4 603	1 235	**20 888**	1 201	4 805	14 882
SMYK GROUP	**10 595**	3 151	4 388	3 056	**12 694**	2 124	3 491	7 079
LANGUAGE SCHOOLS GROUP	**1 474**	297	760	416	**2 213**	-	-	2 213
FASHION & BEAUTY	**9 901**	5 131	2 890	1 880	**8 853**	6 582	697	1 572
Total	**28 343**	**9 115**	**12 641**	**6 588**	**44 648**	**9 908**	**8 994**	**25 746**
EM&F central projects	**1 364**	-	212	1 152	**4 160**	-	3 241	919
Total	**29 707**	**9 115**	**12 853**	**7 740**	**48 808**	**9 908**	**12 235**	**26 665**

In 1Q 2010, total capital expenditure of the Group amounted to PLN 29.7 million, decrease by PLN 19.1 million compared with the similar period of 2009. Capital expenditure on new outlets decreased by PLN 0.8 million yoy. The lower capital expenditure on new stores at Empik Group, compared with last year, resulted mainly from the effort to exploit the opportunities in smaller towns and the Group's focus on opening so-called partner outlets in such towns, which require significantly lower capital expenditure than the traditional ones (in 1Q 2010, three new outlets of Empik Group were opened, of which all were partner ones).

Expenditure on IT and logistics decreased significantly, by PLN 18.9 million, as did expenditure on store maintenance and modernisation. The high expenditure in 2009 resulted mainly from the growth of internet sales (Empik.com), the implementation of state-of-the-art IT systems at the Group companies and from expenditures on purchases of IT equipment.