MANAGEMENT FINANCIAL ANALYSIS FOR TWELVE-MONTH PERIOD ENDING 31 DECEMBER 2007

Main financial data for the year ended 31 December 2007

	12 months of 2007 PLN000	12 months of 2006 PLN000	Change %
Net sales	**1 585 018**	**1 130 667**	**+40.2**
EBITDA from continuing operations *	**138 267**	**98 758**	**+40.0**
% of sales	*8.72%*	*8.73%*	
Net profit*	**71 608**	**49 933**	**+43.4**
% of sales	*4.52%*	*3.75%*	
Number of points of sale **	456	311	
Retail space **	179 155	111 886	

** excluding financial instruments and the valuation of the share based compensation programme.*
*** as at 31 December, continuing operations.*

PLN' 000	12 months of 2007	12 months of 2006	2007 vs 2006 %
EBITDA from continuing operations *	**138 267**	**98 758**	***+40.0%***
% of sales	*8.72%*	*8.73%*	
Unrealised profit from financial instruments revaluation	30 463	22 392	
Realised profit/loss on sale of shares in Coffeeheaven	-6 676	17 267	
Valuation of the share based compensation programme **	-8 337	-4 372	
Amortisation, depreciation and impairment write-offs	-47 127	-33 048	
EBIT	106 591	100 997	

** excluding financial instruments and the valuation of the share based compensation programme.*
***valuation of present and future costs of share based compensation programme .*

PLN' 000	12 months of 2007	12 months of 2006	2007 vs 2006 %
Net profit*	**71 608**	**49 933**	***+43.4%***
% of sales	*4.52%*	*3.75%*	
Unrealised profit from financial instruments revaluation	26 525	18 515	
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Valuation of share based compensation programme **	-8 337	-4 372	
Net profit	83 120	81 344	

** excluding financial instruments and the valuation of the share based compensation programme.*
*** valuation of present and future costs of the share based compensation programme.*

The most significant events at the EM&F Group during the twelve-month period ended 31 December 2007

- Net sales of the EM&F Group increased by 40.2% to PLN 1,585.0M (compared to PLN 1,130.7M in 2006) in 2007. These revenues include the revenues from the sale of Maratex Ltd. in Q4 2007, but do not include the revenues from sale of Zara and Sephora companies. All Group companies achieved high sales growth.
  Net sales of the EM&F Group increased during Q4 2007 by 48.1% to PLN 631.7M (compared to PLN 426.5M in 2006).

- EBITDA from continuing operations in 2007 (excluding financial instruments and costs of the share based compensation programme) increased by 40.0% to PLN 138.3M (PLN 98.8M in 2006).
  EBITDA from continuing operations in Q4 2007 (excluding financial instruments and costs of the employee option incentive scheme) increased by 29.4% to PLN 86.4M (PLN 66.7M in 2006).

- The basic net operating profit of the Group (excluding financial instruments and costs of the share based compensation programme) increased in 2007 by 43.4% to PLN 71.6M (PLN 49.9M in the same period of 2006). The total net profit of EM&F Group in 2007 amounted to PLN 83.1M (PLN 81.3M in 2006), an increase of 2.2%. The result reflects the loss on the sale of Coffeeheaven shares in 2007, resulting from different shares valuation as at the date of sale and as at 31 December 2006. In 2006, the profit on the increase in value of Coffeeheaven shares amounted to PLN 17.3M. The difference in profit from the valuation of Coffeeheaven shares in years 2006 and 2007 amounted to PLN 23.9M in favour of 2006. However, it must be pointed out that the sale of Coffeeheaven shares tripled the amount of capital invested.

- The investment expenses of the Group amounted to PLN 184.8M, which means twice the amount of expenses incurred during the same period of 2006 (PLN 87.8M).

- The Group opened 114 new retail and service outlets (including 13 language schools, 3 acquired Mango stores and 5 Zara stores), increasing the total net retail space by 33,053 m^2:
  - openings in Poland:
    - Empik – 17 stores,
    - Smyk – 9 stores,
    - Ultimate Fashion – 54 franchise fashion stores. Furthermore, during the discussed period, the company acquired 3 Mango stores operating in Poznań, Szczecin and Wrocław, having a total area of 753 m^2, thus becoming the only Mango franchisee in Poland,
    - Zara – 5 stores,
    - SJO EMPiK and Speak Up – 12 language schools.
  - openings abroad:
    - EMPiK – 7 stores in Ukraine,
    - Smyk – 4 stores in Ukraine and 2 stores in Germany,
    - Learning Systems Ukraine – 1 language school in Ukraine.

  Moreover, as a result of assuming the control of Maratex Ltd. at the end of September 2007 and opening new Maratex outlets, the Group expanded its retail network by a further 70 outlets. As at the end of 2007, the Group retail and service chain included

456 outlets (including 18 Zara stores, excluding 65 Sephora perfume stores), with a total net retail area of 179,155 m^2.

- Material agreements:

  - **Maratex Ltd. investment agreement**

  In July 2007, the Group signed an investment agreement on the purchase of controlling interest in Maratex Ltd. EM&F Group is entitled to 51% of the total number of votes. Due to the framework for buyout of minority shareholders set forth in the investment agreement (through put and call instruments), the EM&F Group consolidates 100% of shares in Maratex. The transaction was concluded at the end of September 2007.
  Maratex operates a chain of 70 fashion stores (Esprit, Peacocks, LuluCastagnette, Companys, Palmers, Aldo, Cortefiel, Pedro del Hierro and Orsay) situated in Russia, Kazakhstan and Ukraine.

  - **Smyk-Rus LLC investment agreement**

  In November 2007, Smyk commenced the expansion of the Smyk store chain in the Russian Federation. Pursuant to the investment agreement, the company acquired 75% of shares in Smyk-Rus LLC, having its registered office in Moscow. Due to the framework for buyout of minority shareholders set forth in the investment agreement (through put and call instruments), the EM&F Group consolidates 100% of shares in the company.

  - **Increase of shareholding in Bukva LLC**

  In December 2007, Empik Sp. z o.o., a subsidiary of the EM&F Group, increased its shareholding in Bukva LLC (operating a bookstore chain in Ukraine) to 79%, as a result of the purchase of 100% of shares in Esprentino Trading LLC, holding 14% of shares in Bukva LLC.

  - **Sale of shares in *coffeeheaven international plc***

  In May 2007, the EM&F Group sold all its shares in *coffeeheaven international plc.* The sale of shares tripled the amount of capital invested.

  - **Learning Systems Ukraine LLC**

  Learning Systems Poland – in September the company signed a cooperation agreement with its Ukrainian partners for the development of a language school network in the Ukrainian market. LSP holds a minority stake in Learning Systems Ukraine (LSU) with an option to acquire a controlling stake (call option). LSU operates under a licence granted by LSP.

- New brands, retail formats and product lines in the Group subsidiaries:

  - Ultimate Fashion:

    - New franchise agreements for the exclusive distribution of Cortefiel and Jennyfer products in Poland;
    - Opening of first stores of newly acquired franchises: Palmers, Spring and Jennyfer;
    - Purchase of 3 existing Mango stores situated in Poznań, Wrocław and Szczecin, with a total retail area of 753 m^2, resulting in Ultimate Fashion becoming the only Mango franchisee in Poland;

- The opening of Hugo Boss and Mexx flagship stores in "Złote Tarasy" shopping centre in Warsaw as well as the opening of the first unique retail formats Boss Shoes & Accessories and Aldo Accessories – the first stores of those brands in Poland.

- Optimum Distribution:

  - Optimum Distribution Sp. z o.o. signed three new contracts for the distribution of Gatineau, Micro Cell and Fendi cosmetics as well as an agreement for the expansion of the distribution of Azzaro products to Poland (previously Azzaro products were distributed in the Czech Republic and Slovakia);
  - Optimum Distribution CZ&SK s.r.o. signed four new contracts for the distribution of: (i) Soleko, Migwang and Aryan optical products; and (ii) Rene Furterer cosmetics.

- Empik:

  - Empik Franchise - the opening of the first two franchise stores in Legionowo (September 2007) and Łowicz (November 2007);
  - Empik Cafe – Further expansion of the café chain and the introduction of a modern "culture café" profile. 22 cafes are operating as at the end of 2007;
  - Beginning of sales of GSM products and services: commencement of cooperation with P4 – the operator of PLAY, a new mobile network; the dynamic growth of the sales network offering P4 services and equipment as well as subscription-based connectivity services (such as "n" HDTV platform) in Empik stores (available in 81 stores as at the end of 2007);
  - Re-launch of empik.com in September 2007: improved website layout, new ATG IT platform, personalised offers and the largest offer on the market (2.2 million individual products).

- Learning Systems Poland:

  - Introduction of correspondence courses, courses for companies and "Kids Love English" courses for children as well as online teaching methods into the offer of language schools in Poland.

➢ Other events:

- The Group continued to develop and improve logistics and IT platforms/infrastructure as a part of a whole-Group joint project with Accenture:
  - The implementation of some projects has been completed (e.g. the implementation of a state-of-the-art assortment management platform in Smyk; the implementation of an in-store operations system in Empik and other companies; the implementation of a state-of-the-art Internet platform for empik.com);
  - DHL has been chosen as the logistics partner for the companies affiliated with Empik in the Polish and Ukrainian markets;
  - Further development of the cooperation between SPEDIMEX and Group companies dealing in childrenswear and children's products.

Economic situation and market trends

1. Macroeconomic situation in Poland

In the fourth quarter of 2007 the economy was still booming. According to GIME[1], the rate of GDP growth was 5.5% vis-à-vis Q4 2006. The annual rate of GDP growth in 2007 was 6.3%, as estimated by GIME (6.5% according to GUS[2]). These figures mean that this was the period of fastest economic growth in last 10 years.

Domestic demand remained the main factor behind the economic growth in the fourth quarter of 2007 and throughout the entire year, with the growth of domestic demand estimated by GIME at 8.2% in Q4 2007 and at 7.9% during the entire 2007 (7.3% according to GUS).
The growth rate of individual consumption was also high, estimated by GIME at 5.0% in Q4 2007 and 5.5% during the entire 2007 (according to GUS, 4.9% and 5.2%, respectively). The high growth of individual consumption results from continuing good trends on the employment market (rising employment rate) and a significant increase of wages and salaries.

Economic forecasts predict a continuation of positive market trends in 2008. Public mood in the field of individual consumption remains good as well. These factors, combined with decreasing unemployment and a high increase in disposable income, make good prerequisites for the further growth of the EM&F Group.

GIME estimates the average economic growth in 2008 at 5.4%. The rate of GDP growth is estimated to increase from 5.1% to 5.7% during the subsequent quarters of 2008.

Domestic demand is to be a decisive factor behind economic growth in the future. GIME forecasts domestic demand growth in 2008 at 7.5%. Therefore, the growth of domestic demand will outpace the growth of GDP, as it did in 2007. Individual consumption will also grow steadily by 5.0% in 2008.

2. Market environment – growth of commercial real estate market in CEE countries

Poland

Very dynamic growth of retail space has taken place in recent years and will take place in the coming years in Poland. Due to increasing market saturation, investments, which were initially undertaken in the largest Polish cities, such as Warsaw, Cracow, Poznań, Wrocław, and Łódź, have gradually expanded to medium-sized cities. The next supply wave of modern retail space is expected to arrive on the Polish market in 2008/2009. Despite the ongoing activity of developers in the largest cities, ca. 70% of new investments is to take place in medium-sized cities (cities with more than 80,000 inhabitants), such as Rzeszów, Częstochowa, Radom, Opole and Słupsk. Ca. 1 million m^2 of new retail space is to be put in use in malls by the end of 2008[3]

[1] The Gdańsk Institute for Market Economics (*Instytut Badań nad Gospodarką Rynkową*)
[2] The Central Statistical Office of Poland (*GUS*)
[3] Cushman&Walefield, Marketbeat Polska – Autumn 2007, pp. 11-12.

Russia

According to research conducted among the European retailers, Russia, in particular Moscow and St. Petersburg, is the most attractive investment market for international retail chains[4]. The increase in income of Russians and the expansion of consumer credit contribute to the increased interest of international retail chains in the Russian market: according to the cited research, 9% of retailers plan to enter the Russian market within the next 5 years and a further 17% have already done so. According to experts, the total area of malls in Russia is to increase by 10 to 13 million m^2 by 2010, to achieve a total of 45 to 48 million m^2 by the end of 2012.

Currently, the majority of the market is concentrated in Moscow and St. Petersburg. The size of the mall retail space market is 13.7 million m^2 in Moscow and 2.6 million m^2 in St. Petersburg. Closely behind are the cities of Novosibirsk, Yekaterinburg and Samara, with a mall retail space market of 400,000 to 550,000 m^2, as well as Nizhny Novgorod, Kazan and Chelabinsk, with a mall retail space market estimated at 350,000 to 400,000 m^2. The estimates for the other regional cities, such as Rostov-on-Don, Tyumen, Saratov, Volgograd and Ufa, put the size of the mall retail space market at 200,000 to 350,000 m^2.

By 2010, the market in the largest cities may become saturated; however, the demand for malls in most Russian cities is still far from satisfying. The experts believe that within the next five to six years, a total of 10 million m^2 of retail space will be put to use in Russia. By that time, the total level of investment in the region may amount to ca. USD 15 bn.

Ukraine

Ukraine exhibits great potential for growth of the retail market and modern retail space market, with Ukraine considered to be closely following Russia as one of the largest European countries with an insufficient supply of large retail centres and therefore a promising target for investment.

Kiev remains the main target for investors. It should be noted, however, that the retail space market is also experiencing very intensive growth in large and medium-sized regional cities (more than 500,000 inhabitants), such as Kharkov, Dnepropetrovsk, Odessa, Donetsk, Lvov and Zaporozhe. The retail store market in Ukraine is estimated to achieve 800,000 m^2[5] by the end of 2009.

To recapitulate, the EM&F Group participates in the development of the commercial real estate market in Poland, Russia and Ukraine, which translates to dynamic growth in new outlet openings. In 2007, the Group opened 114 retail and service outlets (including 5 Zara stores) and additionally acquired 70 stores belonging to Maratex, purchased in September 2007.
Based on the forecasts for dynamic growth of commercial real estate as discussed above, it is estimated that the majority of new store openings planned for 2008 will be accomplished; however, this depends to a great extent on the timely openings of new malls and the timely handover of completed premises to Group companies. In the case of delays, planned new store openings will be rescheduled for 2009.

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[4] Rossiyskaya Gazeta.
[5] Colliers International, 2007 Real Estate Review. Ukraine, 26.

Growth of EM&F Group retail chain in 2007

EM&F Group retail chain	31 December 2007		31 December 2006	
	Number of retail and service outlets	Retail space	Number of retail and service outlets	Retail space
Media and Entertainment	**267**	**102 894**	**247**	**83 298**
EMPiK stores	126	59 345	113	48 490
EMPiK Photo Labs	15	-	35	-
Language Schools	72	-	59	-
SMYK	54	43 549	40	34 808
Fashion and Beauty	**171**	**46 945**	**50**	**9 363**
Ultimate Fashion	101	20 995	50	9 363
Maratex	70	25 949		
Total excluding Zara PoLska	**438**	**149 838**	**297**	**92 661**
Zara Polska	18	29 317	14	19 225
Total	**456**	**179 155**	**311**	**111 886**

Results of Group operations in 2007

Net sales

Net sales from continuing operations of the Group increased during 2007 by 40.2% to PLN 1,585.0M (compared to PLN 1,130.7M in 2006). The increase was the result of high sales growth in existing stores and contributions made by the newly opened outlets as well as investments in increased sales effectiveness in the existing store chains.

PLN' 000	12 months of 2007	12 months of 2006	*2007 vs 2006 %*
Net sales	**1 585 018**	**1 130 667**	***+40.2%***
Fashion and Beauty	386 322	233 875	*+65.2%*
Media and Entertainment	1 197 954	896 792	*+33.6%*
Other	742	-	-

Fashion and Beauty

Net sales in the Fashion and Beauty segment increased in 2007 by 65.2% to PLN 386.3M (compared to PLN 233.9M in 2006).

The increase is due to the dynamic growth of the franchise fashion store chain and wholesale operations of the segment companies:

- The franchise fashion store chain managed by Ultimate Fashion comprised 101 stores as of 31 December 2007, including 54 newly opened stores and 3 acquired Mango stores. High sales growth at Ultimate Fashion (by 99.0%) also results from high sales growth at LTL store group, amounting to 8.9% in 2007.

- Maratex, acquired by the EM&F Group in September 2007, opened 7 new stores in Russia and Ukraine in Q4 2007. The company's revenues in Q4 2007 contributed positively to the segment results.

- Optimum Distribution Polska, specialising in wholesale operations in the territory of Poland, achieved high sales growth (up 11.1%) as a result of increasing sales of luxury cosmetics (by 25%) and an increase in the number of outlets (a total of 126 new stores in Poland).

Media and Entertainment

Net sales in the Media and Entertainment segment increased in 2007 by 33.6% to PLN 1,198.0M (compared to PLN 896.8M in 2006).

This high sales growth was maintained by all segment companies. Sales growth at Empik and Smyk companies was 31.1% and 40.3%, respectively, with high two-digit sales growth maintained at the LTL store group, at 10.3% and 11.3%, respectively.

Toys and childrenswear displayed the highest sales growth among the product categories carried by Smyk.

The following product categories recorded the highest sales growth at Empik: hardware, multimedia, films, stationary products and books.

Additionally, Empik dynamically expanded the Empik Café chain, which recorded high sales growth in 2007.

Moreover, empik.com achieved a very high sales growth of 211% in 2007 compared to 2006, attributable to a great extent to the re-launch of its website and the introduction of a new ATG IT platform. The following product categories accounted for the largest share of empik.com revenues: press, books, music, films and photography products.

Sales of the language school network increased by 26.5% y-o-y. Courses for children (46% sales growth) and courses for companies (44% sales growth) recorded the highest sales growth.

A total of 39 new stores and 13 new language schools belonging to the segment were opened during the period under discussion.

EBITDA and EBIT

EBITDA from continuing operations (excluding financial instruments and the valuation of the share based compensation programme) increased by 40.0% to PLN 138.3M (compared to PLN 98.8M in 2006).

The increase in EBITDA results largely from a significant increase in sales growth at Group companies and partially from an increase in profit margins, achieved in part due to changes in the sales structure and more effective product management during seasonal sales.

Fashion and Beauty

The very high growth of EBITDA by 89.4% to PLN 39.5M occurred in the Fashion and Beauty segment, compared to PLN 20.8M in 2006.

It resulted largely from the significant sales growth of franchise branches (Ultimate Fashion) and lower operating costs, achieved mainly due to the increased scale of operations and effective personnel management. Furthermore, the results achieved in Q4 2007 by Maratex, acquired by the EM&F Group in September 2007, contributed positively to the EBITDA of the segment.

Additionally, the wholesale operations of the Group (through Optimum Distribution) had a positive impact on the EBITDA of the segment due to an increase in sales and profit margins and a slower increase in operating costs.
The increase in profit margins was achieved due to changes in the sales structure (the share of cosmetics increased to 83.8%).

Media and Entertainment

EBITDA in the Media and Entertainment segment increased by 23.3% during the discussed period, amounting to PLN 123.8M (PLN 100.4M in 2006).
The increase resulted from high sales growth at existing Empik, Smyk and LSP outlets and contributions made by newly opened outlets.

<u>EBIT</u>
EBIT of the Group increased in 2007 by 5.5% to PLN 106.6M (compared to PLN 101M in 2006).
The result reflects a significantly higher valuation of financial instruments held by the Group (share put/call options in Zara Polska, Sephora Polska, Paritet-Services and Bukva companies), compared with 2006 as well as the loss on the sale of Coffeeheaven shares in 2007 of PLN 6.7M, resulting from different shares valuation as at the date of sale and as at 31 December 2006. In 2006, profit on the increase in value of Coffeeheaven shares amounted to PLN 17.3M. The difference in profit from the valuation of Coffeeheaven shares in years 2006 and 2007 amounted to PLN 23.9M in favour of 2006. It must be pointed out, however, that the sale of Coffeeheaven shares tripled the amount of capital invested.

Additionally, EBIT was influenced by the valuation of the employee option incentive scheme, amortisation, depreciation and impairment write-offs.

PLN' 000	12 months of 2007	12 months of 2006	2007 vs 2006 %
EBITDA from continuing operations *	**138 267**	**98 758**	***+40.0%***
% of sales	*8.72%*	*8.73%*	
Unrealised profit from revaluation of financial instruments	30 463	22 392	
Realised profit/loss on sale of Coffeeheaven shares	-6 676	17 267	
Valuation of the share based compensation programme **	-8 337	-4 372	
Amortisation, depreciation and impairment write-offs	-47 127	-33 048	
EBIT	106 591	100 997	

** excluding financial instruments and the valuation of the share based compensation programme.*
*** valuation of present and future costs of the share based compensation programme.*

Net profit

Net operating profit on ordinary operations of the Group (excluding financial instruments and the valuation of the share based compensation programme) increased by 43.4% to PLN 71.6M in 2007 (compared to PLN 49.9M in 2006).

Total net profit of the EM&F Group in 2007 amounted to PLN 83.1M (compared to PLN 81.3M in 2006), which means an increase of 2.2%.
The increase was realised despite the loss of PLN 6.7M on the sale of Coffeeheaven shares recognised during the period and calculated on the basis of the fair value of the shares (which results from different value of shares as at the date of sale and as at 31 December 2006). In 2006, the profit on the increase in value of Coffeeheaven shares amounted to PLN 17.3M. The difference in profit from the valuation of Coffeeheaven shares in years 2006 and 2007 amounted to PLN 23.9M in favour of 2006. It must be pointed out, however, that the sale of Coffeeheaven shares tripled the amount of capital invested.

Net profit increased by 45.9% in the Fashion and Beauty segment and by 23.6% in the Media and Entertainment segment.

The net profit margin of the Group on ordinary operating activities amounted to 4.52% in 2007, compared to 3.75% in 2006.

PLN' 000	12 months of 2007	12 months of 2006	2007 vs 2006 %
Net profit*	**71 608**	**49 933**	***+43.4%***
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Valuation of the share based compensation programme **	-8 337	-4 372	
Net profit	83 120	81 344	

** excluding financial instruments and the valuation of the share based compensation programme.*
*** valuation of present and future costs of the share based compensation programme.*

Investment expenditures

The investment expenditures of the Group incurred in 2007 amounted to PLN 184.8M, i.e. more than double the expenses incurred during 2006 (PLN 87.8M).
This significant increase results mainly from investments in the opening of new stores and schools, which amounted to PLN 118.5M in 2007.

In 2007, the Group opened 114 new outlets, including 13 language schools and 5 Zara stores. The Group opened new outlets, among others, in several of the largest development projects completed during that period, i.e. Złote Tarasy shopping centre in Warsaw (10 stores), the second development stage of Stary Browar in Poznań (7 stores), Pasaż Grunwaldzki (8 stores) and Magnolia Park (8 stores) in Wrocław, Lublin Plaza (8 stores), Wola Park shopping centre in Warsaw (7 stores), Galeria Bałtycka in Gdańsk (9 stores) and Galeria Biała in Białystok (7 stores).
Also, during the discussed period, 11 new Smyk and EMPiK stores were opened in Ukraine, in shopping centres in Dnepropetrovsk, Kiev, Kharkov, Poltava and in Kiev, Odessa, Dnepropetrovsk, Nikolayev, Kharkov and Poltava, respectively. During Q4 2007 Maratex opened a total of 7 stores in Russia (in St. Petersburg and Novosibirsk) and in Ukraine (in Kiev). Additionally, Smyk opened 2 new stores in Berlin malls.

Other investment expenses were related to the reorganisation and modernisation of existing retail chains and continued IT investments.

PLN' 000	12 months of 2007			12 months of 2006		
Investment expenses	**Total**	New outlets	other	**Total**	New outlets	Other
Fashion and Beauty	**61 957**	58 728	3 229	**23 848**	22 257	1 591
Media and Entertainment	**118 277**	59 815	58 462	**55 491**	26 047	29 443
Total	**180 234**	**118 543**	**61 691**	**79 339**	**48 304**	**31 034**
Other	**4 606**	-	4 606	**2 225**	-	2 225
Discontinued operations	**0**	0	0	**6 240**	5 440	800
Total	**184 840**	118 543	66 297	**87 804**	53 745	34 059

Fashion and Beauty

Investment expenses in the Fashion and Beauty segment in 2007 amounted to PLN 61.9M, compared to PLN 23.8M in 2006.
The expenses were related to investments in franchise store chain expansion – during the discussed period Ultimate Fashion company opened 54 stores with a total retail area of 9,258 m^2, which is nearly four times the total number of shops opened in 2006. Additionally, during that period the company purchased 3 existing Mango stores situated in Poznań, Wrocław and Szczecin with a total retail area of 753 m^2, therefore becoming the only Mango franchisee in Poland. Maratex opened a total of 7 stores in Russia and Ukraine in Q4 2007.
The total retail space in newly opened stores in the segment amounted to 12,772 m^2.

Media and Entertainment

Investment expenses in the Media and Entertainment segment in 2007 amounted to PLN 118.3M, compared to PLN 55.5M in 2006. The expenses were related to investments in retail store chain expansion. 24 EMPiK stores (including 7 in Ukraine), 15 Smyk stores (including 4 in Ukraine and 2 in Germany) and 13 language schools were opened during the discussed period. The total retail area of newly opened stores in the segment amounted to 23,042 m^2.

Other expenses were mainly related to the reorganisation of existing stores and language schools, the implementation of modern IT systems in EMPiK and Smyk store chains, expenses related to the expansion of empik.com and smyk.com platforms and investments in the purchase of IT and multimedia equipment.

The influence of seasonal factors and the dynamic growth of retail chains on profitability

Of note is the fact that due to retail sector specifics, a significant part of annual Group revenues is generated in the last quarter of year, i.e. from October to December (highest profit margins are generated, with operating costs at a stable level).
Due to two periods of seasonal sales (January-February and July-August), results generated during the first nine months are usually lower than in the fourth quarter, as evidenced by the table below.
Additionally, during the weaker Q1 and Q3, newly opened stores, which generate relatively high fixed expenses during the initial period of operations, generate lower EBITDA margins than "mature" stores. However, further along the stores' development cycle their EBITDA margins increase, which results in a significant increase of their profitability in Q2 and Q4.
It is worth mentioning that new stores contribute positively to the Group results starting from the first year of their operation.

Continuing operations, excluding Zara Polska	**2007**				**2006**				**2005**			
PLN million												
	IV	**III**	**II**	**I**	**IV**	**III**	**II**	**I**	**IV**	**III**	**II**	**I**
Net sales	632	332	325	296	427	239	247	218	337	195	201	187
Percentage of annual sales	39.9%	21.0%	20.5%	18.7%	37.7%	21.2%	21.8%	19.3%	36.6%	21.2%	21.8%	20.3%
Gross sales profitability	272	134	141	118	181	97	104	89	145	76	82	72
Gross sales profitability	43.1%	40.5%	43.5%	39.8%	42.4%	40.6%	42.1%	40.8%	43.0%	38.9%	40.8%	38.4%

Events after the reporting period

By 14 February 2008, the Group opened additional 3 retail and service outlets in Poland and 4 more in Ukraine, Russia and Kazakhstan.

On 5 February 2008, EMPiK Sp. z o.o. and HDS Polska Sp. z o.o. signed an investment and joint venture agreement on a joint development of the Empik Café chain in Poland.