

**MANAGEMENT FINANCIAL ANALYSIS FOR THE THREE-MONTH PERIODS ENDED 31 MARCH 2008 AND 31 MARCH 2007**

**Key financial data for the three-month periods ended 31 March 2008 and 31 March 2007.**

	3 months 2008 PLN000	3 months 2007 PLN000	Change %
<b>Net sales</b>	428 171	295 924	+44.7
<b>EBITDA from core activities*</b>	23 717	9 098	+160.7
<i>% of sales</i>	5.54%	3.07%	
<b>Net profit/loss from core operating activities*</b>	2 805	-997	+381.3
<i>% of sales</i>	0.66%	-0.34%	
Number of points of sale**	474	306	
Retail space**	185 471	117 137	

\*\* excluding financial instruments and the valuation of employee option incentive scheme

\*\* as at 31 March

PLN' 000	3 months 2008	3 months 2007	2008 vs 2007 %
<b>EBITDA from core activities*</b>	23 717	9 098	+160.7%
<i>% of sales</i>	5.54%	3.07%	
Unrealised profit from revaluation of financial instruments	8 726	1 147	
Realised loss from valuation of Cofeeheaven shares sold in 2007	-	-2 375	
Valuation of employee option incentive scheme	-3 630	-495	

<b>EBITDA</b>	<b>28 813</b> 6.73%	<b>7 375</b> 2.49%	<b>+290.7%</b>
Amortisation, depreciation and impairment write-offs	-16 125	-9 426	
<b>Profit / loss from operating activities</b>	<b>12 688</b>	<b>-2 051</b>	<b>+718.6%</b>

\* excluding financial instruments (Zara and Sephora) and the valuation of the employee option incentive scheme

PLN' 000	3 months 2008	3 months 2007	2008 vs 2007 %
<b>Net profit/loss from core operating activities*</b>	<b>2 805</b>	<b>-997</b>	<b>+381.3%</b>
<i>% of sales</i>	<i>0.66%</i>	<i>-0.34%</i>	
Unrealised profit from revaluation of financial instruments	7 783	1 076	
Realised loss from valuation of Cofeeheaven shares sold in 2007	-	-2 375	
Valuation of employee option incentive scheme	-3 630	-495	
<b>Net profit/loss</b>	<b>6 958</b>	<b>-2 792</b>	<b>+349.2%</b>

\*\* excluding financial instruments (Zara, Sephora, Bukva, Paritet-Smyk, Smyk Russia, Maratex) and the valuation of the employee option incentive scheme

#### The most significant events at the EM&F Group during the three-month period ended 31 March 2008.

- Net sales of the EM&F Group increased by 44.7% to PLN 428.2 million in Q1 of 2008 (compared with PLN 295.9 million in Q1 of 2007). These revenues include the sales of Maratex, acquired by EM&F Group in Q4 of 2007, but do not include the sales of Zara and Sephora companies, in which the Group holds minority stakes.
- The total EBITDA in Q1 2008 increased by 290.7% to PLN 28.8 million (in Q1 2007 – PLN 7.4 million).  
EBITDA from core activities (excluding financial instruments and employee option incentive scheme) increased by 160.7% to PLN 23.7 million in Q1 2008 (compared with PLN 9.1 million in Q1 2007).
- The basic net operating profit of the Group (excluding financial instruments and costs of the employee option incentive scheme) increased in Q1 2008 by 381.3% to PLN 2.8 million (compared with the loss of PLN 997 thousand in the same period of 2007).

The EM&F Group's total net profit increased by 349.2% to PLN 7.0 million in Q1 2008 (compared with the loss of PLN 2.8 million in Q1 2007).

➤ The investment expenditures of the Group amounted to PLN 56.4 million (Q1 2007 – PLN 32.6 million).

➤ The Group opened 23 new retail and service outlets, increasing the total net retail space by 6,149 m<sup>2</sup>:

• openings in Poland:

- Empik – 4 new stores and 2 agency-based stores,
- Ultimate Fashion – 1 Mexx store,
- Learning Systems Poland – 2 Speak Up language schools.

• openings abroad:

- Empik/ Bukva – 1 store in Ukraine,
- Smyk – 1 store in Russia, first Smyk store on the Russian market
- Maratex – 8 stores in Russia (Cortefiel, Esprit, Orsay, Palmers, Peacocks brands), 2 stores in Ukraine (Aldo, Esprit brands) and 1 in Kazakhstan (Esprit brand),
- Learning Systems Ukraine – 1 Speak Up language school.

As at 31 March 2008, the Group retail and service chain included 474 outlets (including 18 Zara<sup>1</sup>, stores, excluding 66 Sephora<sup>2</sup> perfume stores), with a total net retail area of 185,471 m<sup>2</sup>

➤ Material agreements:

- **On 5 February 2008, Empik Sp. z o.o. and HDS Polska S.A. signed an investment agreement** on the joint expansion of Empik Café, a "culture café" chain, in the Polish market. From 90 to 120 new cafes are planned to be opened within the next 4 years, with the existing Empik and HDS cafes to be adapted to the Empik Café format. The agreement shall come into force upon the fulfilment of conditions precedent, such as obtaining the approval of the Polish Office of Competition and Consumer Protection.

Once the agreement comes into force, which is expected to take place in Q2/Q3 2008, the newly established company is to manage a chain of about 50 cafes.

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

• Optimum Distribution:

- Optimum Distribution Sp. z o.o. signed new contracts for distribution of Dunlop, Carlton and Slazenger tennis, badminton and squash equipment;
- Optimum Distribution CZ&SK s.r.o. signed a new contract for distribution of Orlane cosmetics.

• Maratex:

- The company opened the first stores of the newly acquired Orsay and Palmers franchises in Russia;
- In accordance with the announced strategy, the company continued to expand in the largest Russian and Kazakhstan cities. Among others, its first stores were opened in Astana (the capital of Kazakhstan), Perm (a large industrial city in the Ural Mountains) and Ryazan (one of the largest cities in the European part of Russia).

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<sup>1</sup>EM&F Group holds minority stakes in Zara Polska Sp. z o.o., the operator of Zara stores network in Poland.

<sup>2</sup>EM&F Group holds, through its subsidiary – Empik, minority stake in Sephora Polska.

➤ Other events:

- The Group continued to develop and improve logistics and IT platforms/infrastructure as part of a whole-Group joint project with Accenture, including the successful implementation of the Oracle Retail Planning system in Smyk as well as the first stage of an IT retail system for the Russian operations of Smyk.

## **Economic situation and market trends**

### **1. Macroeconomic situation in Poland**

In the first quarter of 2008 the economy was still booming. According to IBnGR<sup>3</sup>, the rate of GDP growth in Q1 2008 was 5.8% comparing with the same quarter of the previous year.

Corporate investments in infrastructure remained the main factor behind the economic growth in the first quarter of 2008 (with the growth rate of property, plant and equipment gross expenditures estimated by IBnGR at 21.0%) The growth rate of individual consumption was also high, estimated at 4.8% in Q1 2008. The latter resulting, on the one hand, from optimistic consumer expectations regarding further economic growth, and continuing positive trends on employment market and a significant increase of wages and salaries on the other.

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.

IBnGR estimates the average economic growth in 2008 at 5.4%. After the first quarter of the year, when the growth rate was the most dynamic, the GDP growth rate will slow down to reach 5.0% in the last quarter of the year.

Domestic demand will remain a decisive factor behind economic growth in 2008. The estimated domestic demand growth is 7.1%, mainly due to a high investment growth rate, estimated at 18.4%.

Stable consumption growth will continue in 2008. The consumption rate will increase to over 4.0% per annum, and individual consumption between 4.8% and 5.2%, due to an increase in wages and salaries and decreasing level of unemployment.

### **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, Łódź, and Trójmiasto 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 (100 – 200 thousand inhabitants), such as Rzeszów, Częstochowa, Radom, Opole and Słupsk. Ca. 1 million m<sup>2</sup> of new retail space is to be put in use in shopping malls by the end of 2008.

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<sup>3</sup> The Gdańsk Institute for Market Economics (Instytut Badań nad Gospodarką Rynkową)

<sup>4</sup> Cushman&Wakefield, Marketbeat Polska – Autumn 2007, pages 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<sup>5</sup>. 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 – 13 million m<sup>2</sup> by 2010, to achieve a total of 45 – 48 million m<sup>2</sup> 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<sup>2</sup> in Moscow and 2.6 million m<sup>2</sup> in St. Petersburg. Closely behind are the cities of Novosibirsk, Yekaterinburg and Samara, with a mall retail space market of 400 – 550 thousand m<sup>2</sup>, as well as Nizhny Novgorod, Kazan and Chelabinsk, with a mall retail space market estimated at 350 – 400 thousand m<sup>2</sup>. 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 – 350 thousand m<sup>2</sup>.

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<sup>2</sup> 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 billion.

## 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 thousand inhabitants), such as Kharkov, Dnepropetrovsk, Odessa, Donetsk, Lvov and Zaporozhe. The retail store market in Ukraine is estimated to achieve 800 thousand m<sup>2</sup><sup>6</sup> 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 Q1 2008, the Group opened 23 outlets and language schools).

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.

### **Growth of EM&F Group retail chain in Q1 2008**

<b>Number of sales outlets</b>	<b>31 March 2008</b>		<b>31 March 2007</b>	
	<b>Outlets</b>	<b>Retail area</b>	<b>Outlets</b>	<b>Retail area</b>
<b>Media &amp; Entertainment</b>	<b>277</b>	<b>106 446</b>	<b>230</b>	<b>84 173</b>
EMPiK Stores	132	62 252	111	49 635

<sup>5</sup> Rossiyskaya Gazeta publication

<sup>6</sup> Colliers International, 2007 Real Estate Review. Ukraine, page 26.

EMPiK Foto Labs	15	-	17	-
Language Schools	75	-	61	-
SMYK	55	44 194	41	34 538
<b>Fashion &amp; Beauty</b>	<b>179</b>	<b>49 708</b>	<b>61</b>	<b>12 439</b>
Franchise brands - Ultimate Fashion	102	20 906	61	12 439
Maratex	77	28 802		
<b>Total excluding Zara PL</b>	<b>456</b>	<b>156 152</b>	<b>291</b>	<b>96 612</b>
Zara Polska	18	29 317	15	20 525
<b>Total</b>	<b>474</b>	<b>185 471</b>	<b>306</b>	<b>117 137</b>

Empik Foto services are being gradually included in the offer of Empik stores and empik.com or reformed to Empik Cafes

## Results of the Group operations in Q1 2008

### Net sales

Net revenues from net sales of the Group increased in Q1 2008 by 44.7% to PLN 428.2 million (compared with PLN 295.9 million in Q1 2007). The increase resulted from high sales growth in existing stores and contributions made by the newly opened outlets. A significant impact on the Group's net sales had Maratex revenues, acquired by the Group in Q4 2007.

PLN' 000	3 months 2008	3 months 2007	2008 vs 2007 %
<b>Net sales</b>	<b>428 171</b>	<b>295 924</b>	<b>+44.7%</b>
<i>Fashion &amp; Beauty</i>	129 341	61 350	+110.8%
<i>Media &amp; Entertainment</i>	298 830	234 574	+27.4%
<i>Other</i>	-	-	-

### *Fashion and Beauty*

Net sales in the Fashion and Beauty segment increased in Q1 2008 by 110.8% to PLN 129.3 million (compared with PLN 61.4 million in Q1 2007).

The increase is mainly connected with the dynamic growth of the franchise store chains:

- The franchise fashion store chain managed by the Ultimate Fashion included 102 stores as at 31 March 2008, including another Mexx store opened in Q1 2008. The high sales growth at Ultimate Fashion (by 74.3%) also results from a high sales growth at LTL store group (stores operating for at least 12 months), amounting to 8.0% in Q1 2008, as well as from a significant contribution made by the NLTL stores (stores opened in 2007) which have been operating for a full quarter.

- The Maratex company, acquired by the EM&F Group in September 2007, opened a total of 11 new stores in Russia, Ukraine and Kazakhstan in Q1 2008, expanding its retail network to 77 outlets. The company revenues in Q1 2008 contributed significantly to the segment results.

Moreover, Optimum Distribution CZ&SK s.r.o., specialising in wholesale cosmetics and optical products in the territory of the Czech Republic and Slovakia, achieved sales growth of 4.0%, largely as a result of growing sales of luxury and mass market cosmetics.

Optimum Distribution Sp. z o.o., specialising in wholesale cosmetics, optical products, clothes and sports products in the territory of Poland, achieved slight cosmetics sales growth.

In the period discussed the total of 12 stores were opened.

#### *Media and Entertainment*

Net sales in the Media and Entertainment segment increased in Q1 2008 by 27.4% to PLN 298.8 million (compared with PLN 234.6 million in Q1 2007).

This high sales growth was maintained by all segment companies. Sales growth at Empik and Smyk companies was 25.7% and 40.1%, respectively, with high sales growth maintained at LTL store group (stores operating for at least 12 months), at 10.4% and 10.6%, respectively.

Toys and childrens' wear displayed the highest sales growth among the product categories carried by Smyk.

The following product categories recorded the highest sales growth at Empik: hardware<sup>7</sup>, multimedia, films, stationery products and books.

The chain of 22 cafes managed by Empik prior to the signing of the investment agreement between Empik Sp. z o.o. and HDS Polska S.A. achieved very high sales growth of 88.3% in Q1 2008.

The sales of the language school network increased by 18.3% in Q1 2008, compared with Q1 2007, due to a significant contribution of NLTL language schools (i.e. schools opened in 2007). Courses for adults available at SJO Empik language schools and courses available at Speak Up language schools recorded the highest sales growth.

In the period discussed 8 stores and 3 language schools were opened.

#### **EBITDA and operating activities income (EBIT)**

In Q1 2008, total EBITDA increased by 290.7% to PLN 28.8 million (compared with PLN 7.4 million in Q1 2007). The increase in EBITDA results largely from a significant increase in sales growth at Group companies, achieved due to dynamic growth of the retail chain, gross margin increase, positive changes in currency exchange rates and valuation of financial instruments.

EBITDA from continuing operations (excluding financial instruments and the valuation of the employee option incentive program) increased by 160.7% in Q1 2008 to PLN 23.7 million (compared with PLN 9.1 million in Q1 2007).

#### *Fashion and Beauty*

A slight decrease of EBITDA, i.e. by 3.2%, to PLN 5.0 million was noted in the Fashion and Beauty segment in Q1 2008, compared with PLN 5.1 million in Q1 2007.

The specific seasonality of the retail sector has a negative effect on EBITDA, especially in the Fashion and Beauty segment (collection sales), being also influenced by EM&F Group's dynamic increase of the scale of operations, as well as newly opened stores which observe lower profitability in their start-up phase. Moreover, the postponement of openings of a number of shopping malls in 2007 resulted in increased stock, subsequently sold during 1Q 2008 with lower margin.

#### *Media and Entertainment*

EBITDA in the Media and Entertainment segment increased by 151.4% during the discussed period, amounting to PLN 14.3 million (PLN 5.7 million in Q1 2007). The increase resulted from high sales growth at existing Empik, Smyk and LSP outlets.

The EBITDA margin of the Group increased in Q1 2008 to 6.73% (compared with 2.49% in Q1 2007).

Of note is the fact that the Group managed to increase EBITDA profit despite the negative influence of seasonal factors in the first quarter of the year, typical for the retail sector, as well as the dynamic increase of the scale of operations, and newly opened stores which observe lower profitability in their start-up phase. This mechanism is discussed in further detail in the part titled "The influence of seasonal factors and the dynamic growth of the retail chain on profitability".

#### **EBIT**

EBIT of the Group increased in Q1 2008 by 718.6% to PLN 12.7 million (compared with a loss of PLN 2.1 million in Q1 2007).

Operational profit (EBIT) reflects very good profits from ordinary operating activities of the Group (an increase of 381.3% to PLN 2.8 million, compared with a loss of PLN 997 thousand in Q1 2007) as well as the valuation of financial instruments held by the Group (share put/call options in Zara Polska and Sephora Polska.). Additionally, EBIT was influenced by the valuation of employee option incentive scheme.

PLN' 000	3 months 2008	3 months 2007	2008 vs 2007 %
<b>EBITDA from core activities*</b>	<b>23 717</b>	<b>9 098</b>	<b>+160.7%</b>
<i>% of sales</i>	5.54%	3.07%	
Unrealised profit from revaluation of financial instruments	8 726	1 147	
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<b>EBITDA</b>	<b>28 813</b>	<b>7 375</b>	<b>+290.7%</b>
	6.73%	2.49%	
Amortisation, depreciation and impairment write-offs	-16 125	-9 426	

<b>Profit / loss from operating activities</b>	<b>12 688</b>	<b>-2 051</b>	<b>+718.6%</b>
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\* excluding financial instruments (Zara and Sephora) and the valuation of the employee option incentive scheme

### **Net profit**

Net operating profit on ordinary operations of the Group (excluding financial instruments and the valuation of the employee option incentive scheme) increased by 381.3% to PLN 2.8 million in Q1 2008 (compared with the loss of PLN 997 thousand in Q1 2007).

Total net profit of the EM&F Group in Q1 2008 increased by 349.2% to PLN 7.0 million (compared with the loss of PLN 2.8 million in Q1 2007).

Net profit margin of the Group amounted to 1.63% in Q1 2008, compared with -0.94% in Q1 2007.

Of note is the fact that the Group managed to increase net profit margin despite the negative influence of seasonal factors in the first quarter of the year, typical for the retail sector, as well as the dynamic increase of the scale of operations, and newly opened stores which observe lower profitability in their start-up phase. This mechanism is discussed in further detail in the part titled "The influence of seasonal factors and the dynamic growth of retail chain on profitability".

PLN' 000	3 months 2008	3 months 2007	2008 vs 2007 %
<b>Net profit/loss from core operating activities*</b>	<b>2 805</b>	<b>-997</b>	<b>+381.3%</b>
<i>% of sales</i>	<i>0.66%</i>	<i>-0.34%</i>	
Unrealised profit from revaluation of financial instruments	7 783	1 076	
Realised loss from valuation of Cofeeheaven shares sold in 2007	-	-2 375	
Valuation of employee option incentive scheme	-3 630	-495	
<b>Net profit/loss</b>	<b>6 958</b>	<b>-2 792</b>	<b>+349.2%</b>

\*\* excluding financial instruments (Zara, Sephora, Bukva, Paritet-Smyk, Smyk Russia, Maratex) and the valuation of the employee option incentive scheme

## Investment expenditures

The investment expenditures of the Group incurred in Q1 2008 amounted to PLN 56.4 million, compared with PLN 32.6 million in the same period of the previous year. This significant increase results mainly from investments in the openings of new stores and schools, which amounted to PLN 35.6 million in Q1 2008, compared with PLN 24.1 million in Q1 2007. During Q1 2008 the Group opened 23 outlets, including 3 language schools.

Other investment expenditures were related to the rearrangement and modernisation of existing retail chain and continued IT investments.

Capital Expenditures	3 months 2008			3 months 2007		
	Total	New Outlets	Other	Total	New Outlets	Other
Fashion&Beauty	19 919	18 832	1 087	11 918	11 211	707
Media&Entertainment	35 069	16 779	18 290	20 533	12 840	7 692
<b>TOTAL</b>	<b>54 988</b>	<b>35 611</b>	<b>19 377</b>	<b>32 450</b>	<b>24 051</b>	<b>8 399</b>
Other	1 431	-	1 431	120	-	120
Discontinued	0	0	0	0	0	0
<b>TOTAL</b>	<b>56 419</b>	<b>35 611</b>	<b>20 808</b>	<b>32 570</b>	<b>24 051</b>	<b>8 519</b>

### *Fashion and Beauty*

In Q1 2008, investment expenditures in the Fashion and Beauty segment amounted to PLN 19.9 million, compared with PLN 11.9 million in the same period of the previous year.

The expenses were related to investments in franchise store chain expansion. During the discussed period Maratex opened 11 stores with a total retail area of 3,316 m<sup>2</sup>, situated in Russia (the cities of St. Petersburg Rostov, Ryazan, Perm and Ufa), in Ukraine (Kharkov) and Kazakhstan (Astan). Ultimate Fashion opened 1 Mexx store in Gdynia.

The total retail space in newly opened stores in the segment amounted to 3,396 m<sup>2</sup>

### *Media and Entertainment*

In Q1 2008, investment expenditures in the Media and Entertainment segment amounted to PLN 35.1 million, compared with PLN 20.5 million in Q1 2007.

Part of the expenses was related to investments in retail store chain expansion. In the period discussed 6 Empik stores were opened in Poland (including 4 own stores in Sosnowiec, Wrocław and Warsaw and 2 agency-based stores in Belchatów and Oława) and 1 Empik/Bukva store in Ukraine (Kiev).

It is worth noting that the first Smyk store has been opened in Russia (St.Petersburg).

In addition, LSP opened 2 new language schools in Poland (Szczecin and Częstochowa) and 1 school in Ukraine (Kiev).

The total retail area of newly opened stores in the segment amounted to 2,752 m<sup>2</sup>

### *Other investment expenditures*

Other expenses were related to the implementation of modern IT systems in Group's companies and investments in the purchase of IT and multimedia equipment.

Other investment expenses were mainly related to the rearrangement and modernisation of existing stores and language schools, including, in the Fashion and Beauty segment, the general renovation of the ESPRIT flagship store, situated at Marszałkowska St. in Warsaw. Additionally, during the discussed period the ALDO store situated in Arkadia Shopping Centre in Warsaw was refurbished and readjusted to the latest brand's retail concept, with its retail space increased as well.

Additionally, the investment expenses in the Fashion and Beauty segment included the investments made by Empik in the course of the preparation for the launch of the central warehouse for its Polish and Ukrainian retail chains, in order to improve the efficiency of goods turnover at its stores.

### **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, in which the Group operates, a significant part of annual Group revenues is generated in the last quarter of a 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. Additionally, besides the seasonality of retail sales, the dynamic expansion of the scale of operations of the Company, resulting from the large number of newly opened outlets, also has an impact on the profitability during the weaker Q1 and Q3. The profitability of newly opened stores during the initial period of operations is lower than that of existing "mature" stores. However, further along the stores' development cycle, their profitability increases (in particular in Q2 and Q4).

Of note is the fact that new stores contribute positively to Group results starting from the first year of their operations.

Continued operations, excluding Zara Polska PLN million	2008				2007				2006				2005			
	IV	III	II	I	IV	III	II	I	IV	III	II	I	IV	III	II	I
Net sales				444	632	332	325	296	427	239	247	218	337	195	201	187
Sales share					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				177	272	134	141	118	181	97	104	89	145	76	82	72
Gross sales profitability %				39.8%	43.1%	40.5%	43.5%	39.8%	42.4%	40.6%	42.1%	40.8%	43.0%	38.9%	40.8%	38.4%

### **Material events after the reporting period**

#### **Appointments of new Members to the Management Board**

The Supervisory Board of NFI Empik Media & Fashion S.A. has resolved to appoint new Members to the Management Board:

- Mr Kjell Berggren, Real Estate and Expansion Director (appointed on 10 April 2008),

50 years old, a Swedish national. Employed for over 20 years by H&M Hennes & Mauritz AB, involved in the supervision of the expansion of H&M chain in a number of countries:

- From September 2004 to 2008 employed as the Real Estate Director at the H&M headquarters in Sweden; supervised the expansion of H&M in roughly half of the countries where H&M was in the expansion phase.
- From July 2001 to August 2004 supervised the expansion of H&M in the USA and Canada.
- From November 1999 to June 2001 supervised the expansion of H&M in 10 countries worldwide.
- From 1984 to 1999, he was responsible for the entirety of negotiations, store design, construction budget preparation and verification with regard to the project of H&M expansion in Germany and Scandinavia.

- Mr Dariusz Stolarczyk, COO / Operations and Logistics Director (appointed on 10 April 2008),

35 years old, a Polish national, graduate of the Institute of Computer Science of Silesian University of Technology in Gliwice.

- Employed by the EM&F Group since May 2007 – initially as the IT and Supply Chain Director at Smyk, currently as the COO / Operations and Logistics Director of the EM&F Group.
- From 1998 to 2007 employed by Accenture as the Director for CEE and the Russia Retail Sector; Director of the Polish Industry and Trade Sector Task Force (covering industry, retail, consumer goods, pharmacy and transportation), and Member of the Board of Directors of the Accenture Warsaw Office.
- As a Project Manager, consultant and expert, implemented and supervised consultancy projects (involving ERP implementation and IT) of complex organisational transformations for, among others, Empik, Smyk, Ruch, LPP, Benetton, Bossini, Tesco, Ahold, Coca-Cola HBC and Jeronimo Martins Distribution.

- Ms Ewa Podgórska (appointed on 8 May 2008), Chief Legal Officer/ General Counsel and Proxy of the Company.

39 years old, a Polish national, graduate of the Faculty of Law and Administration of the Warsaw University. A qualified legal counsel since 1997. She started her professional career in 1992 at the S. Sołtyński A. Kawecki & A. Szlęzak S.K. law firm. She had also been employed as an Assistant Lecturer at the Department of Constitutional Law of the Faculty of Law and Administration of the Warsaw University.

- Since March 2004 employed as the Chief Legal Officer, and since 2007 also as the Proxy of NFI Empik Media & Fashion S.A.:
  - responsible for the coordination of legal services to NFI EM&F, being the holding company, and its subsidiaries in Poland and worldwide; permanent supervision over the work of the NFI EM&F legal team and lawyers employed by the Company's subsidiaries in Poland and worldwide;
  - responsible for the legal preparation of a number of mergers and acquisitions in Poland and worldwide (in connection with the international expansion of the EM&F Group), as well as the restructuring of acquired entities;
  - responsible for the legal aspects of the EM&F Group companies financing agreements, including credit facility agreements and bond issue programmes;
  - actively participates in negotiating large franchise agreements between the EM&F Group entities and the owners of renowned international brands.
  - advises the company on the matters of company law, intellectual property law, data protection and commercial real estate.
- From 2002 to 2004, Member of the Management Board and General Counsel of EBG Sp. z o.o., a company specialising in M&A consultancy and the coverage of other transactions on capital markets;
- From 1998 to 2001, Legal Counsel and Chief Legal Officer at Domy Towarowe Centrum S.A.:
  - responsible for the implementation of the Domy Towarowe Centrum privatisation agreement;
  - coordinated the restructuring of DTC, including the establishment of new subsidiaries and employment restructuring;

- participated in negotiations with the municipality and the purchase by DTC of title to the Wars, Sawa and Junior properties in Warsaw.

Additionally:

- Participated in restructuring large syndicated loans; in 2003 participated in the programme involving the issue by Polish Retail Properties Finance LLC on the London market of bonds valued at EUR 74 million, fully secured on properties situated in Poland.

## **New stores**

From 1 April to 15 May 2008, the Group opened further **31 retail and service outlets**, including 16 in Poland, 14 in Russia and 1 in Ukraine.

## **Material Agreements**

### *New agreement with Perfume Christian Dior S.A. concerning wholesale distribution of DIOR products*

On 24 April 2008, EPCD Sp. z o.o., a subsidiary of NFI Empik Media & Fashion S.A., and an affiliate of Perfums Christian Dior S.A. ("PCD") signed an agreement pursuant to which EPCD and its subsidiary EPCD CZ & SK s.r.o. will distribute luxury perfumes and cosmetics in the Polish, Czech and Slovak markets. The EM&F Group indirectly holds 80% of shares in EPCD Sp. z o.o., whereas PCD S.A. holds 20% of shares therein.

### *New brands in wholesale distribution*

In accordance with the adopted strategy, the EM&F Group is consistently expanding its portfolio with companies and/or brands corresponding to the business model of the Group:

On 25 April 2008, Optimum Sport Sp. z o.o., a company in organisation and a subsidiary of NFI Empik Media & Fashion S.A., signed a conditional agreement for the purchase of shares in Amersport Sp. z o.o., Pol And 1 Sp. z o.o. and Soul Sp. z o.o., companies dealing in wholesale distribution of Converse, CAT and Merrell sports footwear. The companies hold licenses for the Polish, Czech, Slovak, Belorussian and Ukrainian markets. The agreement shall come into force upon the fulfilment of conditions precedent, such as obtaining the approval of the Polish Office of Competition and Consumer Protection.

### *Expansion of Smyk chain in the Turkish market*

Smyk Sp. z o.o., a subsidiary of NFI Empik Media & Fashion S.A., established two subsidiaries, Kids International Sp. z o.o. and Smyk Children Toys Clothing and Accessories LLC (Smyk Çocuk Giyim Oyuncak ve Aksesuarları Ticaret Limited Şirketi) in order to prepare the expansion of Smyk in the Turkish market.

## **Plans for further expansion**

The EM&F Group has been constantly implementing its expansion strategy set forth at the turn of 2004/2005 and based on the following:

- further organic growth in Poland (growth of the Empik and Empik Café chain; Smyk and franchise fashion store chains, language school networks) as well as support of the Zara and Sephora chains' development;
- further expansion of wholesale distribution in Poland, the Czech Republic, Slovakia and other CEE countries;
- further expansion of EM&F retail concepts in Ukraine, Russia, Kazakhstan, Germany, the Czech Republic and Slovakia;
- further expansion of the business model of the Group (the acquisition of new franchised and licensed brands, introduction of new product lines, change of sales structure);

- acquisition of selected companies having a complementary profile to existing Group business;
- further expansion of internet shopping via empik.com and smyk.com;
- investments in the IT and logistics infrastructure.