

**MANAGEMENT FINANCIAL ANALYSIS  
FOR THE SIX-MONTH PERIODS ENDED  
30 JUNE 2008 AND 30 JUNE 2007**

**Table 1 – selected key financial data for the six-month periods ended 31 June 2008 and 31 June 2007**

	6 months 2008 PLN000	6 months 2007 PLN000	Change %
<b>Net sales</b>	918,664	620,935	+47.9
<b>EBITDA from core activities*</b>	64,044	36,226	+76.8
<i>% of sales</i>	6.97%	5.83%	
<b>Net profit from core activities*</b>	18,193	11,865	+53.3
<i>% of sales</i>	1.98%	1.91%	
Number of points of sale**	534	326	
Retail space**	200,906	126,260	

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

\*\* as at 30 June

**Table 2 – selected key financial data for Q2 2008 vs. Q2 2007**

	2 quarter 2008	2 quarter 2007	Change
<b>Net sales</b>	490,493	325,011	+50.9
<b>EBITDA from core activities*</b>	40,328	27,128	+48.7
<i>% of sales</i>	8.22%	8.35%	
<b>Net profit from core activities*</b>	15,388	12,862	+19.6
<i>% of sales</i>	3.14%	3.96%	
Number of points of sale**	60	20	
Retail space**	15,436	9,123	

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

\*\* as at 30 June

## Settlement of selected financial data for the consolidated financial statements

**Table 3 EBITDA – 6 months 2008 vs. 6 months 2007**

PLN' 000	6 months 2008	6 months 2007	2008 vs 2007 %
<b>EBITDA from core activities*</b>	<b>64,044</b>	<b>36,227</b>	<b>+76.8%</b>
<i>% of sales</i>	6.97%	5.83%	
Gains on revaluation of financial instruments	11,926	3,617	
Valuation of employee option incentive scheme	-7,974	-2,891	
<b>EBITDA</b>	<b>67,996</b>	<b>36,953</b>	<b>+84.0%</b>
<i>% of sales</i>	7.40%	5.95%	
Amortisation, depreciation and impairment write-offs	-33,699	-20,326	
<b>Profit from operating activities</b>	<b>34,297</b>	<b>16,627</b>	<b>+106.3%</b>

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

**Table 4 EBITDA – Q2 2008 vs. Q2 2007**

PLN' 000	2008 Q2	2007 Q2	2008 vs 2007 %
<b>EBITDA from core activities*</b>	<b>40,328</b>	<b>27,128</b>	<b>+48.7%</b>
<i>% of sale</i>	8.22%	8.35%	
Gains on revaluation of financial instruments	3,199	4,845	
Valuation of employee option incentive scheme	-4,344	-2,396	
<b>EBITDA</b>	<b>39,183</b>	<b>29,578</b>	<b>+32.5%</b>
<i>% of sales</i>	7.99%	9.10%	
Amortisation, depreciation and impairment write-offs	-17,574	-10,901	
<b>Profit from operating activities</b>	<b>21,609</b>	<b>18,677</b>	<b>+15.7%</b>

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

## Settlement of selected financial data for the consolidated financial statements

**Table 5 NET PROFIT – 6 months 2008 vs. 6 months 2007**

PLN' 000	6 months 2008	6 months 2007	2008 vs 2007 %
<b>Net profit from core activities*</b>	<b>18,193</b>	<b>11,865</b>	<b>+53.3%</b>
<i>% of sales</i>	1.98%	1.91%	
Gains on revaluation of financial instruments	14,789	1,798	
Valuation of employee option incentive scheme	-7,974	-2,891	
<b>Net profit</b>	<b>25,008</b>	<b>10,772</b>	<b>+132.2%</b>

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

**Table 6 NET PROFIT – Q2 2008 vs. Q2 2007**

PLN' 000	2008 Q2	2007 Q2	2008 vs 2007 %
<b>Net profit from core activities*</b>	<b>15,388</b>	<b>12,862</b>	<b>+19.6%</b>
<i>% of sales</i>	3.14%	3.96%	
Gains on revaluation of financial instruments	7,005	3,097	
Valuation of employee option incentive scheme	-4,344	-2,396	
<b>Net profit</b>	<b>18,049</b>	<b>13,564</b>	<b>+33.1%</b>

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

### **The most significant events at the EM&F Group during the six-month period ended 31 June 2008**

- Net sales of the EM&F Group increased by 47.9% to PLN 918.7 million in H1 2008 compared with PLN 620.9 million in H1 2007 (net sales increased by 50.9% to PLN 490.5 million in Q2 2008 compared with PLN 325.0 million in Q2 2007). These revenues include the sale of Maratex, acquired by EM&F Group in Q4 of 2007 and the sale of companies purchased by Optimum Sport in June 2008 but do not include the sale of Zara and Sephora companies, in which the Group holds minority stakes.
- The total EBITDA in H1 2008 increased by 84.0% to PLN 68.0 million compared with PLN 37.0 million in H1 2007 (EBITDA increased by 32.5% to PLN 39.2 million in Q2 2008 compared with PLN 29.6 million in Q2 2007).

EBITDA from core activities (excluding financial instruments and the employee option incentive scheme) increased by 76.8% to PLN 64.0 million in H1 2008 compared with PLN 36.2 million in H1 2007 (EBITDA from core activities increased by 48.7% to PLN 40.3 million in Q2 2008 compared with PLN 27.1 million in Q2 2007).

- The EM&F Group's total net profit increased by 132.2% to PLN 25.0 million in H1 2008 compared with PLN 10.8 million in H1 2007 (by 33.1% to PLN 18.0 million in Q2 2008 compared with PLN 13.6 million in Q2 2007).

Net profit from core activities of the Group (excluding financial instruments and costs of the employee option incentive scheme) increased in H1 2008 by 53.3% to PLN 18.2 million compared with PLN 11.9 million in H1 2007 (by 19.6% to PLN 15.4 million in Q2 2008 compared with PLN 12.9 million in Q2 2007).

- The investment expenditures of the Group amounted to PLN 113 million in H1 2008 compared with PLN 78.1 million in H1 2007 (investment expenditures amounted to PLN 56.6 million in Q2 2008 compared with PLN 45.5 million in Q2 2007).

#### ➤ FINANCING

- In the first half of 2008, the Management Board of NFI EMF decided to increase the total value of the bond issue programme to PLN 250 million. In March 2008, NFI EM&F issued a new tranche of bonds having a total par value of PLN 151.5 million. The proceeds from the issue of bonds will be used to implement the EM&F Group expansion strategy.
- In order to secure financing for the expansion of the Group in 2009, the company successfully completed talks with Bank Pekao S.A. concerning the grant of an investment loan (for further details see section "Material events after the reporting period" below, p. 15)

- The Group opened 86 new retail and service outlets, increasing total net retail space by 22,142 m<sup>2</sup>:

- openings in Poland:

- Empik – 9 new own stores and 4 agency-based stores,
- Ultimate Fashion – 12 stores,
- Zara – 1 store,
- Learning Systems Poland – 2 Speak Up language schools.

- openings abroad:

- Empik/ Bukva – 2 stores in Ukraine,
- Smyk – 1 store in Ukraine and 1 store in Russia (first Smyk store on the Russian market),
- Maratex – 25 stores in Russia (Esprit, Cortefiel, Pedro del Hierro, Orsay, Palmers, Bodique, Peacocks brands), 6 stores in Ukraine (Esprit, Hugo Boss, Aldo, Palmers brands) and 2 in Kazakhstan (Esprit brand)
- Learning Systems Ukraine – 3 Speak Up language schools in Ukraine and 1 language school in Russia (first Speak Up language school on the Russian market)

Furthermore, as a result of the acquisition of a group of footwear and sportswear distribution companies by Optimum Sport in June, EM&F Group acquired 16 new outlets in Poland and the Czech Republic with a total retail space of 1,392 m<sup>2</sup> (the operations of Optimum Sport are described below in section "Material agreements").

**As at the end of June 2008, the Group retail and service chain included 534 outlets with a total net retail area of 200,906 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.

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

- 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.
- On 25 April 2008, Optimum Sport Sp. z o.o., a subsidiary of NFI Empik Media & Fashion S.A., signed an agreement for the purchase of shares in Amersport Sp. z o.o., PolAnd 1 Sp. z o.o. and Soul Sp. z o.o., companies dealing in wholesale distribution of Converse, CAT and Merrell sport footwear. The companies hold licenses for the Polish, Czech, Slovak, Belorussian and Ukrainian markets.
- On 25 April 2008, Smyk Sp. z o.o., a subsidiary of NFI Empik Media & Fashion S.A., registered 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.
- On 27 May 2008, Empik Sp. z o.o. purchased further 21% of shares in Magalla Holdings Limited, with its registered office in Cyprus, therefore acquiring 100 percent control of Bukva LLC, a company operating Empik/Bukva store chains in Ukraine.
- On 11 June 2008, Smyk Sp. z o.o. signed an investment agreement, pursuant to which it indirectly acquired further 15% of shares in Madras Enterprises Limited, with its registered office in Cyprus, the owner of Paritet-Smyk LLC, a Ukrainian company which manages the Smyk store chain in Ukraine. Currently, Smyk Sp. z o.o. holds 80% of shares in the above mentioned Cypriot company.

➤ 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 and Lotto football wear.

- Optimum Distribution CZ & SK s.r.o. signed a new contract for distribution of Orlane, Nina Ricci, Paco Rabanne and Carolina Herrera cosmetics.

• Maratex:

- The company opened the first stores of the newly acquired Hugo Boss, Orsay, Palmers and Bodique franchises in Russia and Ukraine.

• Language schools

- The opening of the first Speak Up language school in Russia (in Moscow).

➤ Other events:

- The Group continued to develop and improve logistics and IT platforms/infrastructure as part of a whole-Group joint project with Accenture. The project supports the fast growth of the Group, related to the expansion of company portfolio and international expansion. The implementation of Oracle Retail Predictive Application Server planning platform (including, among others, strategic and financial planning applications as well as store and inventory planning tools) has been completed at Smyk. Additionally, the test implementation has been completed of an Oracle Business Intelligence-based analytical platform, enabling data analysis on different aggregation levels in line with the needs of a given business unit. Furthermore, a new transaction system has been implemented for the Ukrainian operations of Smyk.

In order to improve the efficiency of store inventory planning, a new central warehouse for the Empik Polish store chain has been opened in Sochaczew, as part of cooperation between Empik Sp. z o.o. and DHL Exel Supply Chain Sp. z o.o. Another central warehouse has been opened in Kiev for the purposes of Ukrainian Bukva LLC (Empik/Bukva stores). The latter warehouse is to accommodate logistics solutions supporting other EM&F Group companies operating in Ukraine (Smyk, Maratex).

## **Economic situation and market trends**

### 1. Macroeconomic situation in Poland

In the second quarter of 2008 the economy was still booming. According to IBnGR<sup>1</sup>, the rate of GDP growth in Q2 2008 was 5.6% compared with the same quarter the previous year. The result reflects the good condition of the economy despite some signs of a global slowdown.

Domestic demand remained the main factor behind the economic growth in the second quarter of 2008 (with the growth rate estimated by IBnGR at 6.3%, the same as in Q1). Despite a slight decrease in the growth rate of individual consumption to 5.4%, the total consumption growth rate increased to 4.4%. The latter results from optimistic consumer expectations regarding further economic growth on the one hand, and continuing positive trends on the employment market as well as 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.

IBnGR estimates the average economic growth in 2008 at 5.5%. Domestic demand will remain a decisive factor behind economic growth. The estimated domestic demand growth in 2008 is 6.4% per annum, mainly due to a steady increase of individual consumption, influenced by increasing 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 Three-city, have gradually expanded to medium-sized cities.

The next supply wave of modern retail space is expected on the Polish market in 2008/2009. Despite the ongoing activity of developers in the largest cities, 70% of new investments is expected to take place in medium-sized cities (100 – 200 thousand inhabitants), such as Rzeszów, Częstochowa, Radom, Opole and Słupsk. About 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)

## Russia

In H1 2008 a 46.4% increase of investments in retail space market development in Russia was noted. 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>2</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. As a consequence, 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 filled. 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 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>3</sup> by the end of 2009.

To sum up, the EM&F Group participates in the development of the commercial real estate market in Poland, Russia and Ukraine, which means dynamic growth in new outlet openings (in H1 2008, the Group opened 86 outlets and language schools).

Based on the forecasts for dynamic growth of commercial real estate outlined 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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<sup>2</sup> Rossiyskaya Gazeta publication

<sup>3</sup> Colliers International, 2007 Real Estate Review. Ukraine, page 26.

## Development of EM&F Group retail chain in H1 2008

	6 months 2008		6 months 2007		Change	
	No of Outlets	Retail area	No of Outlets	Retail area	No of Outlets	Retail area
<b>Media &amp; Entertainment</b>	<b>290</b>	<b>111,063</b>	<b>237</b>	<b>87,390</b>	<b>22.4%</b>	<b>27.1%</b>
EMPIK - Stores	140	64,749	113	52,050	23.9%	24.4%
EMPIK - Foto Labs *	15	-	17	-	-	-
Language Schools	78	-	64	-	21.9%	-
Smyk	57	46,314	43	35,339	32.6%	31.1%
<b>Fashion &amp; Beauty</b>	<b>225</b>	<b>59,075</b>	<b>73</b>	<b>15,645</b>	<b>208.2%</b>	<b>277.6%</b>
Ultimate Fashion	112	22,866	73	15,645	53.4%	46.2%
Maratex	97	34,818	-	-	-	-
Optimum Sport	16	1,392	-	-	-	-
<b>Total excluding Zara PL</b>	<b>515</b>	<b>170,139</b>	<b>310</b>	<b>103,035</b>	<b>66.1%</b>	<b>65.1%</b>
Zara Polska	19	30,767	16	23,225	18.8%	32.5%
<b>Total</b>	<b>534</b>	<b>200,906</b>	<b>326</b>	<b>126,260</b>	<b>63.8%</b>	<b>59.1%</b>

\* Empik Foto services are being gradually included in the offer of Empik stores and reformatted to Empik Cafes

## Results of the Group operations in H1 2008 and Q2 2008

### Net sales

Net sales of the Group increased in H1 2008 by 47.9% to PLN 918.7 million, compared with PLN 620.9 million in H1 2007 (net sales increased by 50.9% to PLN 490.5 million in Q2 2008, compared with PLN 325.0 in Q2 2007). The increase resulted from high sales growth in existing stores (LTL at 8.44%) and contributions made by the 86 newly opened outlets. A significant impact on the Group's net sales was due to Maratex revenues, acquired by the Group in Q4 2007. Furthermore, the companies recently acquired by Optimum Sport contributed to EM&F's sales.

GROUP EM&F 000 PLN January - June 2008	6 months 2008			Total	6 months 2007			Total	Change
	LTL	NLTL	New Stores		LTL	NLTL	New Stores		
Sales									
Retail									
Poland	523,315	155,798	15,218	665,140	482,595	49,723	0	518,359	+28.3%
Other countries	99,353	45,340	12,217	156,910	11,714	3,860	0	15,574	+907.5%
Wholesale				96,614				87,002	+11.0%
<b>TOTAL</b>				<b>918,664</b>				<b>620,935</b>	<b>+47.9%</b>

PLN' 000	6 months 2008	6 months 2007	2008 vs 2007 %
<b>Net sales</b>	<b>918,664</b>	<b>620,935</b>	<b>+47.9%</b>
<i>Fashion &amp; Beauty</i>	305,687	134,525	+127.2%
<i>Media &amp; Entertainment</i>	612,977	486,410	+26.0%
<i>Other</i>	-	-	-

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PLN' 000	2Q 2008	2Q 2007	2008 vs 2007 %
<b>Net sales</b>	<b>490,493</b>	<b>325,011</b>	<b>+50.9%</b>
<i>Fashion &amp; Beauty</i>	176,346	73,175	+141.0%
<i>Media &amp; Entertainment</i>	314,147	251,836	+24.7%
<i>Other</i>	-	-	-

### *Fashion and Beauty*

Net sales in the Fashion and Beauty segment increased in H1 2008 by 127.2% to PLN 305.7 million, compared with PLN 134.5 million in H1 2007 (by 141.0 % to PLN 176.3 million in Q2 2008, compared with PLN 73.2 million in Q2 2007).

The increase is mainly connected with the significant contribution of Maratex, acquired in September 2007, the dynamic growth of Maratex and Ultimate Fashion franchise store chains and a high growth of their revenues as well as the good results of Optimum Distribution companies. Furthermore, sales at the companies recently acquired by Optimum Sport, consolidated starting from 1 June 2008, had a positive impact on the growth of sales in the segment.

The following are of particular note:

- The high sales growth at Maratex, acquired in September 2007, resulted from the opening of 33 new stores in Russia, Ukraine and Kazakhstan and high sales growth at existing stores.
- The high sales growth at Ultimate Fashion in H1 2008 (by 64.4%) results from a high sales growth at LTL store group (stores operating for at least 12 months), amounting to 13% in H1 2008, as well as from a significant contribution made by the NLTL stores (stores opened in 2007) and opening 12 new stores in Poland.
- The consolidation of one month's sales at the companies recently acquired by Optimum Sport also had a positive impact on the sales in the Fashion and Beauty segment in H1 2008.
- Optimum Distribution Sp. z o.o., specialising in wholesale cosmetics, optical products, clothes and sports products in the territory of Poland, achieved sales growth of 8.4%, largely as a result of the 7.5% growth in cosmetics sales, resulting from the increase in the number of outlets operated by the company's customers.
- 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 14.2%, largely as a result of growing sales of luxury and mass market cosmetics.

In the period discussed, a total of 62 stores were opened by the Group in the segment (including 16 stores belonging to the companies acquired by Optimum Sport).

## *Media and Entertainment*

Net sales in the Media and Entertainment segment increased in H1 2008 by 26.0% to PLN 613 million, compared with PLN 486.4 million in H1 2007 (by 24.7% to PLN 314.1 million in Q2 2008, compared with PLN 251.8 million in Q2 2007).

This high sales growth was maintained by all segment companies. Sales growth at Empik and Smyk companies was 22.7% and 36.3%, respectively, with high sales growth maintained at LTL store group (stores operating for at least 12 months), at 8.0% and 10.0%, respectively and sales growth at NTLT stores as well as contributions made by the newly opened stores – 15 Empik stores opened in Poland and Ukraine and 3 Smyk stores opened in Poland, Russia and Ukraine.

Toys (36.9%) and childrens' wear (17.5%) displayed the highest sales growth among the product categories carried by Smyk.

The following product categories recorded the highest sales growth at Empik in H1 2008: hardware<sup>4</sup> (48.1%), stationery products (37.3%), films (35.1%), multimedia (31.8%), books (24.5%) and music (15.8%).

The chain of 24 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 94.4% in H1 2008.

The sales of the language school network increased by 25.3% in H1 2008, compared with H1 2007, due to a significant contribution of LTL language schools (5%), NTLT language schools and 6 newly opened schools in Poland, Russia and Ukraine. Courses available at Speak Up language schools (46%) as well as courses for children (36%) and adults (17%) available at SJO Empik language schools recorded the highest sales growth.

In the period discussed 18 stores and 6 language schools were opened.

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

In H1 2008, total EBITDA increased by 84.0% to PLN 68.0 million, compared with PLN 37.0 million in H1 2007 (by 32.5% to PLN 39.2 million in Q2 2008, compared with PLN 29.6 million in Q2 2007).

The increase in EBITDA results largely from a significant increase in sales growth at Group companies, achieved due to high sales growth at LTL stores, dynamic growth of the retail chain, gross margin increase, positive changes in currency exchange rates and valuation of financial instruments (Zara and Sephora).

EBITDA from continuing operations (excluding financial instruments and the valuation of the employee option incentive program) increased by 76.8% in H1 2008 to PLN 64.0 million, compared with PLN 36.2 million in H1 2007 (by 48.7% to PLN 40.3 million in Q2 2008, compared with PLN 27.1 million in Q2 2007).

## *Fashion and Beauty*

In H1 2008, EBITDA from continuing operations (excluding financial instruments and the valuation of the employee option incentive program) in the Fashion and Beauty segment increased by 134.3% to PLN 27.5 million compared with PLN 11.7 million in H1 2007 (by 241.3% to PLN 22.5 million in Q2 2008 compared with PLN 6.6 million in Q2 2007).

A significant contribution to EBITDA was made by Maratex. Additionally, wholesale distribution of cosmetics (Optimum Distribution) and sports footwear (Optimum Sport) had a positive impact.

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<sup>4</sup>Hardware includes, among others, MP3 players, game consoles, mobile phones, accessories, etc.

## Media and Entertainment

In H1 2008, EBITDA from continuing operations (excluding financial instruments and the valuation of the employee option incentive program) in the Media and Entertainment segment increased by 53.5% to PLN 38.7 million, compared with PLN 25.2 million in H1 2007. The increase resulted from high sales growth at existing Empik, Smyk and LSP outlets and increased gross margins, mainly at Smyk, Empik and Pol Perfect.

In H1 2008, the EBITDA margin from continuing operations (excluding financial instruments and the valuation of the employee option incentive program) of the Group increased to 6.97%, compared with 5.83% in H1 2007 (decreased to 8.22% in Q2 2008, compared with 8.35% in Q2 2007).

Of note is the fact that the Group managed to increase EBITDA profit in H1 2008 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**

In H1 2008, EBIT of the Group increased by 106.3% to PLN 34.3 million, compared with PLN 16.6 million in H1 2007 (by 15.7% to PLN 21.6 million in Q2 2008 compared with PLN 18.7 million in Q2 2007).

Operational profit (EBIT) in H1 2008 reflects very good profits from core operating activities of the Group (an increase of 90.9% to PLN 30.3 million, compared with PLN 15.9 million in H1 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	6 months 2008	6 months 2007	2008 vs 2007 %
<b>EBITDA from core activities*</b>	<b>64,044</b>	<b>36,227</b>	<b>+76.8%</b>
<i>% of sales</i>	6.97%	5.83%	
Gains on revaluation of financial instruments	11,926	3,617	
Valuation of employee option incentive scheme	-7,974	-2,891	
<b>EBITDA</b>	<b>67,996</b>	<b>36,953</b>	<b>+84.0%</b>
<i>% of sales</i>	7.40%	5.95%	
Amortisation, depreciation and impairment write-offs	-33,699	-20,326	
<b>Profit from operating activities</b>	<b>34,297</b>	<b>16,627</b>	<b>+106.3%</b>

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

PLN' 000	2008 Q2	2007 Q2	2008 vs 2007 %
<b>EBITDA from core activities*</b>	<b>40,328</b>	<b>27,128</b>	<b>+48.7%</b>
<i>% of sales</i>	8.22%	8.35%	
Gains on revaluation of financial instruments	3,199	4,845	

Valuation of employee option incentive scheme	-4,344	-2,396	
<b>EBITDA</b>	<b>39,183</b>	<b>29,578</b>	<b>+32.5%</b>
<i>% of sales</i>	7.99%	9.10%	
Amortisation, depreciation and impairment write-offs	-17,574	-10,901	
<b>Profit from operating activities</b>	<b>21,609</b>	<b>18,677</b>	<b>+15.7%</b>

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

### **Net profit**

Total net profit of the EM&F Group in H1 2008 increased by 132.2% to PLN 25.0 million, compared with PLN 10.8 million in H1 2007 (by 33.1% to PLN 18.0 million in Q2 2008 compared with PLN 13.6 million in Q2 2007) .

Net operating profit on core operations of the Group (excluding financial instruments and the valuation of the employee option incentive scheme) increased by 53.3% to PLN 18.2 million in H1 2008, compared with PLN 11.9 million in H1 2007 (by 19.6% to PLN 15.4 million in Q2 2008 compared with PLN 12.9 million in Q2 2007).

The large increase in net operating profit on core operations of the Group was made possible due to significantly higher sales and gross margins (resulting in a high increase of EBITDA). These factors outweighed the negative impact of increasing depreciation and financial expenses, related to the extensive expansion of the Group companies' retail chain.

Net profit margin on care operations of the Group (excluding financial instruments and the valuation of the employee option incentive scheme) in H1 2008 amounted to 1.98% compared with 1.91% in H1 2007 (slightly decreased to 3.14% in Q2 2008 compared with 3.96% in Q2 2007).

Of note is the fact that the Group managed to increase net profit margin in H1 2008 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	6 months 2008	6 months 2007	2008 vs 2007 %
<b>Net profit from core activities*</b>	<b>18,193</b>	<b>11,865</b>	<b>+53.3%</b>
<i>% of sales</i>	1.98%	1.91%	
Gains on revaluation of financial instruments	14,789	1,798	
Valuation of employee option incentive scheme	-7,974	-2,891	
<b>Net profit</b>	<b>25,008</b>	<b>10,772</b>	<b>+132.2%</b>

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

PLN' 000	2008 Q2	2007 Q2	2008 vs 2007 %
<b>Net profit from core activities*</b>	<b>15,388</b>	<b>12,862</b>	<b>+19.6%</b>
% of sales	3.14%	3.96%	
Gains on revaluation of financial instruments	7,005	3,097	
Valuation of employee option incentive scheme	-4,344	-2,396	
<b>Net profit</b>	<b>18,049</b>	<b>13,564</b>	<b>+33.1%</b>

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

### **Investment expenditures**

Investment expenditures incurred by the Group in H1 2008 amounted to PLN 113 million, compared with PLN 78.1 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 72.7 million in H1 2008, compared with PLN 55.4 million in H1 2007. During H1 2008 the Group opened 86 outlets, including 6 language schools.

Other investment expenditures were related to the rearrangement and modernisation of the existing retail chain (see segments below), continued implementation of modern IT systems in the Group's companies, investments in the purchase of IT and multimedia equipment and the opening of 2 central warehouses for Empik/Bukva chains in Sochaczew and Kiev.

Due to the implementation of the regional expansion strategy of the Group, the investment expenditures in foreign markets, particularly in Russia, Kazakhstan and Ukraine, increased significantly, as shown in the table below.

PLN'000'	6 months 2008	6 months 2007	Change %
<b>Poland</b>	78,755	73,363	7%
<b>Russia, Ukraine and Kazakhstan</b>	33,379	3,949	745%
<b>Other</b>	851	744	14%

PLN' 000	6 months 2008			6 months 2007		
	Total	New points of sale	Other	Total	New points of sale	Other
<b>Investment expenditures</b>						
Fashion & Beauty	43,505	38,738	4,767	27,431	25,322	2,109
Media & Entertainment	66,314	33,952	32,362	49,762	30,031	19,731
<b>Total</b>	<b>109,819</b>	<b>72,690</b>	<b>37,129</b>	<b>77,193</b>	<b>55,353</b>	<b>21,840</b>
Other	3,166	-	3,166	863	-	863
Discontinued operations	0	0	0	0	0	0
<b>Total</b>	<b>112,985</b>	<b>72,690</b>	<b>40,295</b>	<b>78,056</b>	<b>55,353</b>	<b>22,703</b>

PLN' 000	2Q 2008			2Q 2007		
Investments expenditures	Total	New points of sale	Other	Total	New points of sale	Other
Fashion & Beauty	23,586	19,906	3,680	15,513	14,111	1,402
Media & Entertainment	31,245	17,173	14,072	29,229	17,190	12,039
<b>Total</b>	<b>54,831</b>	<b>36,079</b>	<b>17,752</b>	<b>44,743</b>	<b>31,301</b>	<b>13,442</b>
Other	1,735	-	1,735	743	-	743
Discontinued operations	0	0	0	0	0	0
<b>Total</b>	<b>56,566</b>	<b>37,079</b>	<b>19,487</b>	<b>45,486</b>	<b>31,301</b>	<b>14,185</b>

### *Fashion and Beauty*

In H1 2008, investment expenditures in the Fashion and Beauty segment amounted to PLN 43.5 million, compared with PLN 27.4 million in the same period of the previous year.

The expenses were largely related to investments in franchise store chain expansion. During the period under discussion, Ultimate Fashion opened 12 new outlets in Poland (in Gdynia, Warsaw and Bydgoszcz). Maratex opened 33 outlets, including stores in Russia (the cities of Rostov, Perm, Ufa, Ryazan, St. Petersburg, Vladimir, Krasnoyarsk, Kaliningrad, Moscow and Chelyabinsk), in Ukraine (Kharkov, Kiev and Odessa) and in Kazakhstan (Astan).

The total retail space in newly opened stores in the segment amounted to 13,474 m<sup>2</sup>.

Other investment expenses were mainly related to the renovation and modernisation of existing stores, including the general renovation of the ESPRIT flagship store, situated at Marszałkowska St. in Warsaw. Additionally, 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.

### *Media and Entertainment*

In H1 2008, investment expenditures in the Media and Entertainment segment amounted to PLN 66.3 million, compared with PLN 49.8 million in H1 2007.

Part of the expenses were related to investments in retail store chain expansion. In the period under discussion, 13 Empik stores were opened in Poland (including 9 own stores in Sosnowiec, Wrocław, Warsaw, Bydgoszcz, Biała Podlaska, Konin, Zielona Góra and Rybnik and 4 agency-based stores in Belchatów, Oława, Świdnica and Żywiec) and 2 Empik/Bukva stores were opened 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), 2 schools in Ukraine (Kiev and Odessa) and 1 school in Russia (Moscow).

The total retail area of newly opened stores in the segment amounted to 8,668 m<sup>2</sup>.

Furthermore, Empik incurred investment expenses relating to the opening of the central warehouses for its Polish and Ukrainian store chains in order to improve the store inventory management.

## 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 the 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	2008				2007				2006				2005			
PLN million	IV	III	II	I	IV	III	II	I	IV	III	II	I	IV	III	II	I
Net sales			490	428	632	332	325	296	427	239	247	218	337	195	201	187
Share 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%
Accrued sales			919	428	1,585	953	621	296	1,131	704	465	218	920	583	387	187
Gross sales profitability			236	177	272	134	141	118	181	97	104	89	145	76	82	72
Gross sales profitability %			48.1%	41.2%	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

### New stores

From 1 July to 14 August 2008, the Group opened a further **5 stores**, i.e. 1 in Poland and 4 in Russia.

### Financing

On 14 August 2008, NFI EM&F and its subsidiaries, Empik Sp. z o.o., Smyk Sp. z o.o., Ultimate Fashion Sp. z o.o., Optimum Distribution Sp. z o.o. and Learning Systems Poland Sp. z o.o., signed a PLN 150 million credit agreement with Bank Pekao S.A. The majority of the loan is to be used for financing the expansion of the Group's distribution network and logistics and IT infrastructure.

The loan shall be repaid in 20 equal instalments from 30 September 2010 to 30 June 2015. The loan secures the Group's financing in 2009.

### 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, Ukraine, Russia, Kazakhstan, Germany, the Czech Republic and Slovakia;
  - 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 customer base for cosmetics, sportswear and equipment and optical products;
- concept development and innovation of existing business formats leading to increased gross margins and sales at LTL stores through expanding the franchise and licensed brand portfolio and expanding the offer of goods and services;
- acquisition of selected companies having a complementary profile to existing EM&F Group business;

- further expansion of internet shopping via empik.com / empik.ua and smyk.com;
- investments in the IT and logistics infrastructure.