

Warsaw, 8 May 2008

Appendix 1
To Resolution No. 36/IV/2008

**REPORT OF THE SUPERVISORY BOARD
OF NFI EMPIK MEDIA & FASHION S.A.**

on results of examination of the financial statement of the Company and the financial statement of NFI Empik Media & Fashion S.A. Capital Group for the financial year 2007 prepared according to International Financial Reporting Standards (IFRS), the Management Board's report on the activities of the Company and NFI Empik Media & Fashion S.A. Capital Group for the financial year 2007 and the Management Board's proposal to cover the Company's loss for 2007

Under article 382.3 of the Commercial Companies Code and in conjunction with article 23.2 of the Company Statute, the Supervisory Board examined the following documents presented by the Company's Management Board:

1. Unit financial statement of the Company for the financial year 2007;
2. Consolidated financial statement of NFI Empik Media & Fashion S.A. Capital Group for the financial year 2007;
3. The Management Board's report on the Company's activity for the financial year 2007;
4. The Management Board's report on the activity of NFI Empik Media & Fashion S.A. Capital Group for the financial year 2007;
5. The Management Board's proposal to cover the Company's loss for the financial year 2007.

The Supervisory Board also analysed the following documents presented by the Management Board:

1. Opinion and report of the auditor PricewaterhouseCoopers Sp. z o.o. on its audit of the unit financial statement of the Company for the financial year 2007;
2. Opinion and report of the auditor PricewaterhouseCoopers Sp. z o.o. on its audit of the consolidated financial statement of NFI Empik Media & Fashion S.A. Capital Group for the financial year 2007.

Both of these reports and opinions were signed on behalf of Pricewaterhouse Coopers Sp. z o.o. by auditor Adam Celiński.

Finance and assets of NFI Empik Media & Fashion S.A.

Balance sheet as of 31 December 2007

Total assets as of 31 December 2007 amounted to zł 750,675,000.

On 20 May 2007 NFI Empik Media & Fashion S.A. ("the Company") sold all its shares held in Coffeeheaven International plc for zł 19,406,000 realising a loss amounting to zł 6,676,000. On the sale day the Company held 9.45% of shares in Coffeeheaven International plc, which were disclosed as financial assets at fair value in the financial result.

Investments in subsidiaries amounted to zł 540,052,000 (zł 466,411,000 in 2006) and increased from the previous year by zł 73,641,000, which resulted mainly from shareholding in Maratex Ltd at zł 67,588,000 and acquisition of shares issued by Ultimate Fashion Sp. z o.o. at zł 6,000,000.

Investments in affiliates amounting to zł 12,497,000 included, like in the previous year, 20% shareholding in Zara Polska Sp. z o.o.

Moreover, main long-term and short-term assets were loans granted mostly to affiliates, which increased from the previous year by zł 36,931,000 up to zł 110,846,000. That increase resulted mainly from loans granted to subsidiaries: Ultimate Fashion Sp. z o.o., Smyk Sp. z o.o., Learning Systems Poland Sp. z o.o. and one of managers of Maratex Ltd.

Receivables for supplies and services and other receivables included mainly short-term cash guarantees at zł 1,791,000 and receivables from affiliates at zł 4,454,000 for management, logistics and IT services provided to subsidiaries.

Cash as of the balance sheet date at zł 46,279,000 included cash on bank accounts, mainly current deposits, and cash in hand of NFI Empik Media & Fashion S.A.

Liabilities as of the balance sheet date 31 December 2007 included mainly the Company's external source of finance from subsidiaries and other entities, amounting respectively to zł 57,781,000 and 137,373,000.

Net assets as of 31 December 2007 amounted to zł 539,590,000.

Net assets per share as of 31 December 2007 amounted to zł 5.26.

The share capital as of 31 December 2007 amounted to zł 10,258,000.

Account of profits and losses from 1 January to 31 December 2007

Revenues from sales in 2007 were achieved entirely from advisory services provided to subsidiaries.

Costs of salaries and employee benefits included costs of remuneration in the form of shares to management at zł 8,336,000 (in 2006 – zł 4,372,000).

Amortisation and value write-offs for 2007 amounted to zł 888,000 and included costs of amortisation (zł 564,000) and revaluation write-off for loan granted to a subsidiary (zł 324,000).

Other net profits at total zł 6,875,000 included mainly profit on fair value of the options to sale of shares in Zara Polska Sp. z o.o. at zł 11,745,000 and loss on sale of shares in Coffeeheaven International plc at zł 6,676,000.

For the year ending on 31 December 2007, the Fund incurred net loss at zł 9,268,000.

Cash flow report from 1 January to 31 December 2007

Net cash spent on operating activity amounted to zł 3,942,000 (in 2006 – zł 2,225,000) and covered mainly increase of costs of that activity, which resulted in a loss that was higher than in the previous year.

Net cash used in investments activities amounted to zł 80,352,000 (in 2006 – zł 43,457,000) and included mainly expenses on acquisition of shares in Maratex Ltd and loans to subsidiaries.

Net cash flows from financial activity was zł 123,279,000 (in 2006 – zł 27,020,000) originated mainly financing in the form of credits, borrowings and bonds.

In the end of 2007 the Fund achieved increase of cash and its equivalents by zł 38,985,000 from the previous year.

Unit financial statement of the Company for the financial year 2007 comprised:

- A) Balance sheet as of 31 December 2007;
- B) Account of profits and losses from 1 January 2007 to 31 December 2007;
- C) List of changes in equity from 1 January 2007 to 31 December 2007;
- D) Cash flow report from 1 January 2007 to 31 December 2007;
- E) Additional information on adopted accountancy rules and other explanations.

Consolidated financial statement of NFI Empik Media & Fashion S.A. Capital Group for the financial year 2007 comprised:

- A) Consolidated balance sheet as of 31 December 2007;
- B) Consolidated account of profits and losses from 1 January 2007 to 31 December 2007;
- C) Consolidated list of changes in equity from 1 January 2007 to 31 December 2007;
- D) Consolidated cash flow report from 1 January 2007 to 31 December 2007;
- E) Additional information on adopted accountancy rules and other explanations.

The consolidated balance sheet of the Capital Group had total assets of zł 1,621,746,000 on the side of assets and liabilities.

The consolidated value of net assets as of 31 December 2007 amounted to zł 413,396,000.

The consolidated book value of net assets per share as of 31 December 2007 amounted to zł 4.03.

The value of consolidated base capital as of 31 December 2007 amounted to zł 289,347,000.

Evaluations of the significant risk management system for the Company

Financial risk factors

The Company's activity is exposed to several risks: market risk (including exchange rates, change of fair value, change of cash flows resulting from change of interest rates, or prices risk), credit risk and liquidity loss risk. The Company's general programme of risk management is determined mainly by financial markets unpredictability and is aimed at minimisation of potentially unfavourable impacts on the Company's financial results. The Company uses financial instruments to secure itself against certain risks.

The Company's Management Board has set general rules of risk management and its policy in some areas, such as exchange rates risk, interest rates risk, credit risk, usage of derivatives and other financial instruments and investments in liquidity surpluses.

(i) Exchange rates risk

NFI Empik Media & Fashion S.A. is exposed to risks of exchange rates fluctuations related to transactions executed in currencies other than its functional one, mainly in euros. The exchange rates risk results from future commercial transactions, reported assets and liabilities (including rental contracts and financial leasing).

In order to secure its exposure to exchange rates risk, the Company creates currency deposits in euro, which are used to pay liabilities expressed in other currencies.

(ii) Interest rates changes risk

Profits and operational cash flows of NFI Empik Media & Fashion S.A. are to a great extent independent from changes in market interest rates. Interest provided in leasing contracts, in which the Company is the lessee, is fixed and agreed at execution of the contract.

The Company's interest rates changes risk is created by long-term debt instruments. Credits and loans with variable interest expose the Company to the risk of change in cash flows caused by change of interest rates. The Company analyses the level of interest rates risk on current basis and evaluates its potential impact on its financial result. Simulations of various scenarios are carried out with consideration of re-financing, renewing existing items, alternative financing and collaterals. By reference to such scenarios the Company calculates impacts of certain interest rate changes on its financial result. Scenarios are created only for liabilities of highest rates.

(iii) Credit risk

Credit risk is created by cash and its equivalents, derivative financial instruments, deposits in banks and financial institutions and credit arrangements with wholesale and retail clients, which also include outstanding receivables and obligations to conclude transactions.

Credit risk of NFI Empik Media & Fashion S.A. is created mainly by contracts for shares sale options concluded with Sephora in 2003 and Inditex in 2005. At present, Standard & Poor agency rates Sephora as BBB+. In the Management Board's opinion, the credit risk is minimum.

(iv) Liquidity loss risk

Prudent management of liquidity loss risk requires maintaining adequate level of cash, availability of finance at sufficient amounts from acquired crediting sources and application of payment terms offered by suppliers. Because of dynamic nature of its business, the Company intends to maintain flexibility of its finance thanks to access to credit facilities. The management has been monitoring current prognoses of the Company's liquid money on the basis of anticipated cash flows. The Company has access to both working capital, including credit facilities, and to money that has not been used by companies from the capital group NFI Empik Media & Fashion S.A. Moreover, the Company has issued bonds within the framework of medium-term debt securities scheme.

(v) Listing changes risk

The Company is not exposed to listing changes risk as it has sold its investment in shares of Coffeeheaven International plc in May 2007.

Following its evaluation of the documents presented by the Management Board, the Supervisory Board declares as follows:

- the Supervisory Board acknowledges full compliance of the Management Board's activities with the Company Statute, the Act of 30 April 1993 on National Investment Funds and their Privatisation and other applicable laws;
- the unit financial statement of the Company for the financial year 2007 and the Management Board's report on the Fund's activity from 1 January to 31 December 2007 were prepared correctly and in accordance with applicable laws;
- the consolidated financial statement of NFI Empik Media & Fashion S.A. Capital Group for the financial year 2007 and the Management Board's report on the Capital Group's activity from 1 January to 31 December 2007 were prepared correctly and in accordance with applicable laws;
- presented documents reflect correctly and reliably the result on economic activity, as well as assets and finance of NFI Empik Media & Fashion S.A. and the Capital Group of NFI Empik Media & Fashion S.A.;
- the Supervisory Board recommends to the General Meeting to accept the Company's unit financial statement and the consolidated financial statement of the Capital Group of NFI Empik Media & Fashion S.A. for the financial year 2007, as well as the Management Board's report on the activities of the Company and the Capital Group of NFI Empik Media & Fashion S.A. in the financial year 2007 presented by the Management Board;
- the Supervisory Board supports the Management Board's proposal regarding coverage of the loss for 2007 and recommends to the General Meeting to adopt a resolution accepting the Management Board's proposal;
- the Supervisory Board requests the General Meeting to grant discharge to members of the Management Board and the Supervisory Board for fulfilment of their duties in the financial year 2007.

For the Management Board of NFI Empik Media & Fashion S.A.

Tomasz Chenczke
Supervisory Board Chairman