

MANAGEMENT FINANCIAL ANALYSIS FOR THE NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2007 AND 30 SEPTEMBER 2006

	9 months of 2007 PLN000	9 months of 2006 PLN000	Change %
Sales from continuing operations	953 291	704 148	+35.4
Sales from discontinued operations		132 914	-100.0
EBITDA from continuing operations*	51 908	32 012	+62.2
<i>% of sales</i>	<i>5.45%</i>	<i>4.55%</i>	
Net basic operating profit/loss*	14 700	-2 147	+784.8
<i>% of sales</i>	<i>1.54%</i>	<i>-0.26%</i>	
Financial Instruments Revaluation	3 679	15 719	-76.6
Net profit including financial instruments revaluation	18 379	13 573	+35.4
Employee shares	-4 178	-2 555	-63.5
Net profit	14 202	11 018	+28.9
Number of points of sale**	343	271	
Retail space**	134 134	100 400	
* excluding financial instruments and employee shares			
** as at 30 September, continuing operations			

Important events for the EM&F Group during the nine-month period ended 30 September 2007

- Net revenues from continuing operations of the Group increased during the first nine months of 2007 by 35.4% to PLN 953.3 million (compared to PLN 704.1 million during the first nine months of 2006). These revenues do not include revenues from the sale of Zara and Sephora companies as they are not consolidated by the Group. All Group companies achieved high sales growth.
- EBITDA from continuing operations (excluding financial instruments and the costs of the employee option incentive scheme) increased by 62.2% to PLN 51.9 million (PLN 32 million during the first nine months of 2006).
- Net operating profit of the Group (excluding financial instruments and the costs of the employee option incentive scheme) during the first nine months of 2007 increased by 784.8% to PLN 14.7 million, compared to a loss of PLN 2.1 million in the equivalent period of 2006. The total net profit of the EM&F Group for the first nine months of 2007 amounted to PLN 14.2 million (PLN 11.0 million in the first nine months of 2006), which amounts to an increase of 28.9%. The result accounts for the loss on the sale of the Coffeeheaven shares in the first nine months of 2007 (resulting from a different valuation of the shares between the date of the sale and 31 December 2006). However, it must be pointed out that the sale of the Coffeeheaven stake resulted in tripling of the amount of capital invested.
- Investment expenses of the Group amounted to PLN 122.2 million, i.e. twice the amount of expenses incurred during the equivalent period of 2006 (PLN 53.9 million).
- The Group opened 72 new retail and service outlets (including 8 language schools, 3 newly-acquired Mango stores and 3 Zara stores), increasing the total net retail space by 26,225 m²:
 - openings in Poland:
 - Empik – 10 stores,
 - Smyk – 5 stores,
 - Ultimate Fashion – 34 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 m², therefore becoming the only Mango franchisee in Poland,
 - Zara – 3 stores,
 - SJO Empik and Speak Up – 8 language schools.
 - openings abroad:
 - Empik – 5 stores in Ukraine,
 - Smyk – 2 stores in Ukraine and 2 stores in Germany.

As of the end of September 2007, the Group's retail and service chain included 343 outlets (including 3 Zara stores, and excluding Maratex and Sephora stores) with a total net retail area of 134,134 m². As a result of assuming control of Maratex company at the end of September 2007 and the opening of new outlets, as of 14 November 2007 the Group chain included 436 outlets with a total net retail area of 168,142 m².

➤ Material agreements:

In July 2007 the Group concluded an investment agreement on the acquisition of 43.3% of shares in Maratex Ltd., giving EM&F 51% of the total number of votes. The transaction was completed at the end of September. Maratex operates a chain of 63¹ fashion stores (Esprit, Peacocks, LuluCastagnette, Companys) located in Russia, Kazakhstan and Ukraine.

➤ New brands and retail formats in the Group subsidiaries:

• Ultimate Fashion:

- opening of Hugo Boss and Mexx flagship stores in "Złote Tarasy" shopping centre in Warsaw,
- opening of the first stores of newly acquired franchises: Palmers and Spring, as well as the first Boss Shoes & Accessories retail format in Poland,
- opening of the first two Jennyfer stores in Poland,
- a new franchise agreement for the exclusive distribution of Cortefiel products in Poland.

• Optimum Distribution:

- Optimum Distribution Sp. z o.o. signed two new contracts for the distribution of French Gatineau and German Micro Cell cosmetics, as well as an agreement for expanding the distribution of Azzaro products in Poland (previously Azzaro products were distributed in the Czech Republic and Slovakia),
- Optimum Distribution CZ&SK s.r.o. company signed two new contracts for distribution of Soleko and Migwang contact lenses.

• Empik - opening of the first franchise store in Legionowo (September 2007).

• Empik Cafe – Further expansion of the café chain and introduction of a modern "culture café" profile. There were 21 cafes operating as of the end of 3Q 2007.

• 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 owns 10% of shares in Learning Systems Ukraine (LSU) with a call option to acquire a controlling stake in the company. LSU operates under a licence granted by LSP.

➤ Other events:

- During the discussed period Empik continued its cooperation with P4 – an operator of the new PLAY mobile network (the sale of services and equipment offered by P4 in Empik stores).
- In September 2007 the empik.com website was relaunched, incorporating an improved layout, new ATG IT platform, personalised offers and the biggest offer on the market (2.2 million individual products).
- Smyk company achieved high sales growth of toys, clothes and footwear of its own Smiki and CoolClub brands.
- Learning Systems Poland achieved significant sales growth in language courses for companies (an increase of 70.5%).

¹ As of 30 September 2007

- The Group continued to develop and improve logistics and IT platforms/infrastructure as a part of a whole-Group joint project with Accenture.

Economic situation and market trends

1. Macroeconomic situation in Poland

In the third quarter of 2007 the economy was still booming, with economic growth slightly slower than that recorded three months earlier. According to GIME², the annual GDP growth rate was 5.6% compared to the equivalent period last year. Accounting for the seasonal factors, the quarterly GDP growth was 1.3%. Domestic demand remained the main factor behind economic growth, with its growth in Q3 2007 estimated by GIME at 7.4%.

Economic forecasts for the rest of the year imply the continuation of good market trends in Q4. The general mood in the field of individual consumption remains strong. These factors, combined with decreasing unemployment and a high increase in disposable income levels, provide favourable prerequisites for further growth of the Group.

According to the GIME estimates, economic growth in 2007 should reach the level of 6.1% (a figure very similar to that of 2006).

Domestic demand is to be a decisive factor behind economic growth in the future. GIME forecasts domestic demand growth in Q4 and in the entire 2007 to reach 8.0%.

2. Market environment

Quite dynamic growth of retail space has taken place in recent years and will continue in the ensuing years in Poland. As of the end of 2006, modern retail space in Poland amounted to ca. 6,300 thousand m². Another 600 thousand m² are under construction, with another 1,000 m² being in the advanced planning and design phases. According to the Retail Research Forum, in the first half of 2007 a total of 224,500 m² of modern retail space were released for use in malls in the eight largest Polish cities³. Another 125,500 m² are to be completed Poland's eight largest cities by the end of 2007. According to estimates for 2008, an additional 441,300 m² of gross lettable modern retail space will be created.

EM&F Group participates in that growth, which translates into dynamic growth in the number of new outlet openings. During the first nine months of 2007 the Group opened 72 retail and service outlets.

It is estimated that the majority of new store openings planned for 2007 will be executed; however, this depends, to a large extent, on the timely openings of new malls and the timely handover of completed premises to the Group's companies. If any delays occur, the planned new store openings will be rescheduled for 2008.

² The Gdańsk Institute for Market Economics

³ Including Warsaw (with Raszyn and Marki), Katowice conurbation, Tri-city metropolitan area, Łódź, Cracow, Wrocław, Poznań, and Szczecin.

Results of the Group operations for the first nine months of 2007

Net sales

Net sales from continuing operations of the Group increased during the first nine months of 2007 by 35.4% to PLN 953.2 million (compared to PLN 704.1 million for the first nine months of 2006). This increase resulted from 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 chain.

PLN' 000	9 months of 2007	9 months of 2006	2007 vs. 2006 %
Net sales	953 291	704 148	+35.4%
<i>Fashion and Beauty</i>	207 957	147 247	+41.2%
<i>Media and Entertainment</i>	745 334	556 901	+33.8%

Fashion and Beauty

Net sales in the Fashion and Beauty segment increased during the first nine months of 2007 by 41.2% to PLN 208 million (compared to PLN 147.2 million for the first nine months of 2006).

This increase is connected with dynamic growth of the franchise fashion store chain, which as of 30 September 2007 included 81 stores operated by Ultimate Fashion, including 34 newly opened stores and 3 acquired Mango stores. Material events of the first nine months of 2007 included: the opening of Hugo Boss, Mexx and Palmers flagship stores in Złote Tarasy shopping centre in Warsaw; the opening of the first Boss Shoes & Accessories retail format in Poland; the opening of the first Spring store in Europe, specialising in footwear and accessories for young people; and the opening of two Jennyfer stores, Jennyfer being a brand recently introduced in Poland.

High sales growth of Ultimate Fashion largely results from excellent sales growth at existing stores, amounting to 44.8% during the first nine months of 2007.

Furthermore, the Group companies specialising in wholesale (Optimum Distribution Polska and Optimum Distribution CZ&SK) achieved high sales growth resulting from the expanding distribution and advantageous currency exchange rates. There was particularly high sales growth in luxury cosmetics on the Polish, Czech and Slovak markets – an 25-29% increase compared to the same period of 2006.

Media and Entertainment

Net sales in the Media and Entertainment segment increased during the first nine months of 2007 by 33.8% to PLN 745.3 million (compared to PLN 556.9 million for the first nine months of 2006).

This high sales growth was maintained by all companies operating in the segment. Sales growth at Empik and Smyk companies was 32.0% and 35.1%, respectively, with high sales growth dynamics maintained at the existing outlets.

Empik expanded the sales chain of P4 – an operator of PLAY mobile network at its 66 Empik stores. Additionally, Empik is dynamically expanding the Empik Café chain, which achieved a

52% turnover increase during the first nine months of 2007. Moreover, empik.com achieved very high sales growth of 155.6% during the first nine months of 2007 compared to the same period of 2006. The following product categories accounted for the largest share of empik.com revenues: books, music and films.

Revenues of the language school network increased by 26.6% compared to last year. Courses for companies (70.5% sales growth) and courses for children (58% sales growth) marked the greatest sales expansion.

A total of 24 new stores and 8 new language schools were opened during the discussed period.

	30 September 2007	30 September 2006
Number of outlets		
Media and Entertainment	246	209
EMPiK stores	116	81
EMPiK Photo Labs	15	35
Language Schools	67	57
SMYK	48	36
Fashion and Beauty	81	48
Franchise brands - Ultimate Fashion	81	48
Total excluding Zara PL	327	257
Zara Polska	16	14
Total	343	271

Total retail area	30 September 2007	30 September 2006
Media and Entertainment	93 905	73 615
EMPiK stores	54 744	43 491
EMPiK Photo Labs	-	-
Language Schools	-	-
SMYK	39 161	30 124
Fashion and Beauty	17 003	7 559
Franchise brands - Ultimate Fashion	17 003	7 559
Total	110 908	81 174
Zara Polska	23 225	19 225
TOTAL Retail Area	134 134	100 400

EBITDA

EBITDA from continuing operations (excluding financial instruments and costs of the employee option incentive program) increased by 62.2% to PLN 51.9 million (compared to PLN 32.0 million for the first nine months of 2006).

The increase in EBITDA results largely from the significant increase in sales growth of the Group companies and from the increase in profit margins at some companies, achieved, inter alia, thanks to changes in the sales structure.

It should be noted that the most important Group companies recorded significant EBITDA growth, despite the dynamic growth of the chain and the related increase in operating costs.

Furthermore, EBITDA increased from 4.55% during the first nine months of 2006 to 5.45% in 2007, which was largely caused by an increase in efficiency in the Fashion and Beauty segment and effective operating costs control.

The impact of seasonal factors and dynamic growth of the retail chain on EBITDA:

It is worth mentioning that the Group managed to increase its EBITDA margin despite the negative impact of: (i) seasonal changes in sales, typical for the retail sector, and (ii) lower profitability of the newly opened stores in the initial period of their operations, i.e.:

- (i) The retail sector is characterised by the lowest profitability in first and third quarters of the year, with profitability rising in Q2 and achieving its maximum levels in Q4 (due to the impact of the Christmas shopping season).

Low profitability in Q1 and Q3 is influenced by seasonal sales in January/February and July/August, respectively. During those periods inventories are discounted and additional sales expenses are incurred (among others related to the increased staffing, merchandise display and marketing), which has a negative impact on EBITDA.

- (ii) Additionally, besides the seasonality of the retail business described above, the dynamic growth of the Group's business, resulting from a large number of new outlet openings, had a negative impact on the profitability in Q1 and Q3 of 2007. The profitability of new stores during the initial period of operations is lower than that of existing stores. New stores, while contributing to sales growth of the Group, generate proportionally higher fixed expenses during the initial period, which has a negative impact on EBITDA of the Group (in particular in Q1 and Q3). However, further along the stores' development cycle they start to contribute positively to the EBITDA of the Group, which causes an additional increase in the Group's profitability in Q2 and Q4. Therefore, the annual EBITDA is higher than in 2006 (significant increases in Q2 and Q4 outweigh the losses generated in Q1 and Q3, and increase the total profitability).

Fashion and Beauty

Very high EBITDA growth, i.e. by 161.2% to PLN 15.7 million, was recorded in the Fashion and Beauty segment, compared to PLN 6.0 million for the first nine months of 2006.

The above result was achieved largely thanks to the significant sales growth of franchise branches (Ultimate Fashion) and lower operating costs.

Additionally, wholesale operations of the Group (through the Optimum Distribution company) had a positive impact on the EBITDA of the segment due to an increase in sales and profit margins, advantageous foreign exchange rates and decrease in operating costs.

Media and Entertainment

EBITDA in the Media and Entertainment segment increased by 48.9% in the discussed period, amounting to PLN 38.1 million (PLN 25.6 million for the first nine months of 2006). This increase resulted from very high sales growth at existing Empik, Smyk and LSP outlets, contributions made by newly opened outlets and the increase in profitability at Empik and Smyk.

The total EBITDA amounted to PLN 52.3 million compared to PLN 46.0 million during the same period of 2006, which translated into an increase of 13.7%. The result reflects a significantly lower valuation of financial instruments compared to the previous period (PLN 4.6 million compared to PLN 16.6 million for the same period of 2006).

EBITDA from other operations were also influenced by revaluation of financial instruments, costs of the employee option incentive scheme and EBIT of NFI EMF.

	9 months of 2007 PLN000	9 months of 2006 PLN000	Change %
EBITDA from continuing operations*	51 908	32 012	+62.2
<i>% of sales</i>	<i>5.45%</i>	<i>4.55%</i>	
Financial Instruments Revaluation	4 591	16 568	-72.3
EBITDA from continuing operations including financial Instruments	56 498	48 580	+16.3
Employee shares	-4 178	-2 555	-63.5
EBITDA from continuing operations including financial instruments and costs of employee option incentive scheme	52 320	46 025	+13.7

**excluding financial instruments and costs of employee option incentive scheme*

Net profit

Net operating profit on ordinary activities of the Group (excluding financial instruments and costs of the employee option incentive scheme) increased by 784.8% to PLN 14.7 million for the first nine months of 2007, compared to a loss of PLN 2.1 million generated during the same period of 2006.

The total net profit of the EM&F Group for the first nine months of 2007 amounted to PLN 14.2 million (compared to PLN 11.0 million during the same period of 2006), i.e. an increase of 28.9%. The increase was generated despite the loss from the sale of Coffeeheaven shares recognised in the period and calculated on the basis of the fair value of the shares (which results from the difference in value of the shares between the date of sale and 31 December 2006). It must be pointed out, however, that the sale of Coffeeheaven shares tripled the amount of capital invested.

Influence of seasonality and dynamic growth of the retail chain on profitability:

Net operating profit margins on ordinary activities of the Group amounted to 1.54% for the first nine months of 2007, compared to -0.26% during the same period of 2006. It is worth mentioning that the Group achieved an increase in profit margin despite the negative impact of seasonality of the retail sector and the lower profitability of newly opened stores in the initial period of operations.

New stores, while contributing to the sales growth of the Group, generate proportionally higher fixed expenses in the initial period, which has a negative impact on EBITDA of the Group (in particular in Q1 and Q3). However, further along the stores' development cycle they start to contribute positively to the EBITDA of the Group, which causes an additional increase in the Group's profitability in Q2 and Q4. Therefore, the annual EBITDA is higher than in 2006 (significant increases in Q2 and Q4 outweigh the losses generated in Q1 and Q3 and increase the total profitability).

PLN' 000	9 months of 2007	9 months of 2006	2007 vs 2006 %
Net operating profit/loss*	14 700	-2 147	+ 784.8%
<i>Financial Instruments Revaluation</i>	3 679	15 719	-76.6%
Net profit including financial instruments revaluation	18 379	13 573	+35.4%
Employee shares	-4 178	-2 555	-63.5%
Net profit	14 202	11 018	+28.9%

* excluding financial instruments and employee shares

Investment expenses

Investment expenses of the Group incurred during the first nine months of 2007 amounted to PLN 122.2 million, i.e. double the expenses incurred during the same period of 2006 (PLN 53.9 million).

This significant increase results mainly from investments in the opening of new stores and schools, which amounted to PLN 83.4 million during the first nine months of 2007.

During the first three quarters of 2007 the Group opened 72 new outlets, including eight language schools and three Zara stores. The Group opened new outlets, among others, in several of the largest development projects completed during that period, i.e. the Złote Tarasy shopping centre in Warsaw (10 stores), the second development stage of Stary Browar in Poznań (seven stores), Pasaż Grunwaldzki in Wrocław (eight stores), Lublin Plaza (eight stores) and Wola Park shopping centre in Warsaw (seven stores).

Also, during the discussed period seven new Smyk and Empik stores were opened in Ukraine, in shopping centres in Dnepropetrovsk and Kiev and in Kiev, Odessa, Dnepropetrovsk and Nikolaev, respectively. Moreover, Smyk opened 2 new stores in Berlin shopping malls.

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

PLN' 000	9 months of 2007			9 months of 2006		
	Total	New outlets	Other	Total	New outlets	Other
Investment expenses						
Fashion and Beauty	41 507	39 157	2 350	15 429	14 227	1 202
Media and Entertainment	79 233	44 242	34 990	33 469	16 753	16 716
Total	120 740	83 399	37 340	48 897	30 980	17 918
Other	1 422	-	1 422	698	-	698
Discontinued operations	0	0	0	4 346	1 958	2 387
Total	122 162	83 399	38 762	53 941	32 938	21 003

Fashion and Beauty

Investment expenses in the Fashion and Beauty segment for the first nine months of 2007 amounted to PLN 41.5 million, compared to PLN 15.4 million for the same period of 2006. These expenses were related to investments in the franchise store chain expansion – during the discussed period Ultimate Fashion company opened 34 stores with a total area of 7,800 m², which is double the total number of shops opened in 2006. Additionally, during that period the company purchased three existing Mango stores situated in Poznań, Wrocław and Szczecin with a total retail area of 753 m², thereby becoming the only Mango franchisee in Poland.

Media and Entertainment

Investment expenses in the Media and Entertainment segment during the first nine months of 2007 amounted to PLN 79.2 million, compared to PLN 33.5 million for the same period of 2006. These expenses were related to investments in the retail store chain expansion: 15 Empik stores (including five in Ukraine), nine Smyk stores (including two in Ukraine and two in Germany) and eight language schools were opened during the discussed period. The total area of the newly opened stores amounted to 13,673 m².

Other expenses were mainly related to the rearrangements of Empik stores and language schools and investments in the purchase of IT and multimedia equipment.

Seasonal factors in the Group operations

It should be noted that due to retail sector specifics, a significant part of the Group's annual 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, as evidenced by the table below.

Continuing Operations excluding Zara Polska	2007			2006				2005			
	III	II	I	IV	III	II	I	IV	III	II	I
PLN million											
Net Sales	332	325	296	427	239	247	218	337	195	201	187
Annual sales share				37.7%	21.2%	21.8%	19.3%	36.6%	21.2%	21.8%	20.3%
Gross sales profitability	134	141	118	181	97	104	89	145	76	82	72
Gross sales profitability %	40.5%	43.5%	39.8%	42.4%	40.6%	42.1%	40.8%	43.0%	38.9%	40.8%	38.4%

Important events in Q4 2007 and further implementation of the expansion strategy:

In October 2007 revenues from continuing operations of the Group increased by 42% compared to the same period of 2006.

By 14 November 2007 the Group had opened another 30 retail and service outlets in Poland, Russia and Ukraine (including three newly opened shops of the acquired Maratex company and four language schools).

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:

- further growth of Empik, Smyk and franchise store chains (the latter through Ultimate fashion) as well as Speak Up and SJO Empik language school networks,
- support of Zara and Sephora chains' development,
- expansion of wholesale distribution (through Optimum Distribution Polska) – expansion of brand portfolio and distribution network.

➤ Further development abroad:

1) Ukraine

- further expansion of the following chains: Empik, Smyk, franchise stores (through Maratex) and language schools (through Learning Systems Ukraine /LSU).

2) Russia, Ukraine and Kazakhstan

In September 2007 EM&F Group assumed control of Maratex Ltd. under an investment agreement, purchasing 43.3% of Maratex's shares, which gives EM&F Group 51% of the total number of votes. Maratex operates a chain of 63 fashion stores (Esprit, Peacocks, LuluCastagnette, Companys) situated in Russia, Kazakhstan and Ukraine.

Besides organic development of Maratex company on all markets within the currently managed brands, the Group is planning to introduce additional franchised brands to the Russian, Ukrainian and Kazakh markets.

Additionally, the Group aims to develop other retail formats in Russia.

3) Germany

- further establishment of the Smyk brand on the German market.

4) Czech Republic and Slovakia

- further expansion of wholesale distribution (through Optimum Distribution CZ&SK) – expansion of brand portfolio and distribution network.

➤ Expansion on new foreign markets

- Romania

- expansion of selected retail chains.

- Other countries

- the Group is constantly researching the possibilities of further expansion onto other foreign markets.

➤ Development of the Group's business model:

1) development of existing concepts.

- new franchised and licensed brands
- new product lines
 - change of sales structure

2) acquisition of selected companies having a complementary profile to existing Group business.

➤ Further expansion of internet shopping:

- 1) empik.com – leader in Poland and in the region (launches in Ukraine in 2008)
- 2) further development of smyk.com website and parents' community portal

➤ Development of IT and logistics infrastructure

The Group continues to develop and upgrade existing logistics and IT platforms/infrastructure to better suit constantly growing needs resulting from the increasing scale of EM&F operations in Poland and neighbouring countries. The implemented application architecture will include, among others, state-of-the-art Oracle Retail-based merchandise planning tools, UPOS-supplied in-store operations system and Aldata Gold Supply Chain Management System. At the same time there are ongoing works on implementing an integrated, effective and centrally managed supply chain covering the entire product life-cycle from model design to production, purchase (in Poland and abroad), importing and distribution. The choice of logistics partners for cooperation mainly in the Polish, Ukrainian and Russian markets is soon to be concluded.