

**MANAGEMENT FINANCIAL ANALYSIS
FOR THE NINE-MONTH PERIOD ENDED
30 SEPTEMBER 2008 AND 30 SEPTEMBER 2007**

Table 1 – Selected financial data for the period of 9 months of 2008 vs. 9 months of 2007

	9 months 2008 PLN000	9 months 2007 PLN000	change %
Net sales	1 443 879	953 291	+51.5
EBITDA from core activities*	92 095	51 907	+77.4
<i>% of sales</i>	<i>6.38%</i>	<i>5.45%</i>	
Net profit from core activities *	21 256	14 700	+44.6
<i>% of sales</i>	<i>1.47%</i>	<i>1.54%</i>	
Number of outlets **	638	343	
Retail area**	276 186	134 134	
* excluding financial instruments and the valuation of employee option incentive scheme			
** core activities as at 30 September			

Table 2 – Selected financial data for Q3 2008 vs. Q3 2007

	Q3 2008 PLN000	Q3 2007 PLN000	change %
Net sales	525 215	332 356	+58.0
EBITDA from core activities*	28 051	15 681	+78.9
<i>% of sales</i>	<i>5.34%</i>	<i>4.72%</i>	
Net profit from core activities*	3 063	2 835	+8.0
<i>% of sales</i>	<i>0.58%</i>	<i>0.85%</i>	
Number of outlets**	104	17	
Retail area**	75 280	7 873	
* result excluding financial instruments and and the cost of employee option incentive scheme			
** increase of outlets and retail area			

Reconciliation of selected financial data to consolidated financial statements

Table 3 EBITDA – 9 months of 2008 vs. 9 months of 2007

PLN ⁰⁰⁰	9 months 2008	9 months 2007	2008 vs 2007 %
EBITDA from core activities*	92 095	51 907	+77.4%
<i>% of sales</i>	6.38%	5.45%	
Profit from revaluation of financial instruments**	14 745	5 199	
Valuation of employee option incentive scheme	-10 887	-4 178	
EBITDA	95 953	52 928	+81.3%
<i>% of sales</i>	6.65%	5.55%	
Amortisation and impairment losses	-53 021	-32 320	
EBIT / Profit from operating activities	42 932	20 609	+108.3%
<i>% of sales</i>	3.0%	2.2%	

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

** valuation of financial instruments (Zara, Sephora i EPCD).

Table 4 EBITDA – Q3 2008 vs. Q3 2007

PLN ⁰⁰⁰	Q3 2008	Q3 2007	2008 vs 2007 %
EBITDA from core activities*	28 051	15 681	+78.9%
<i>% of sales</i>	5.34%	4.72%	
Profit from revaluation of financial instruments**	2 820	1 582	
Valuation of employee option incentive scheme	-2 913	-1 287	
EBITDA	27 957	15 976	+75.0%
<i>% of sales</i>	5.32%	4.81%	
Amortisation and impairment losses	-19 322	-11 994	
EBIT / Profit from operating activities	8 635	3 982	+116.8%
<i>% of sales</i>	1.6%	1.2%	

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

** valuation of financial instruments (Zara, Sephora i EPCD).

Reconciliation of selected financial data to consolidated financial statements

Table 5 NET PROFIT – 9 months of 2008 vs. 9 months of 2007

PLN'000	9 months 2008	9 months 2007	2008 vs 2007 %
Net profit from core activities*	21 256	14 700	+44.6%
<i>% of sales</i>	<i>1.47%</i>	<i>1.54%</i>	
Profit from revaluation of financial instruments**	18 342	3 679	
Valuation of employee option incentive scheme	-10 887	-4 178	
Net profit	28 711	14 202	+102.2%

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

**valuation of financial instruments (Zara, Sephora, Bukva, Paritet-Smyk, Smyk Russia, Maratex i EPCD).

Table 6 NET PROFIT – Q3 2008 vs. Q3 2007

PLN'000	Q3 2008	Q3 2007	2008 vs 2007 %
Net profit from core activities*	3 063	2 835	+8.0%
<i>% of sales</i>	<i>0.58%</i>	<i>0.85%</i>	
Profit from revaluation of financial instruments**	3 553	1 881	
Valuation of employee option incentive scheme	-2 913	-1 287	
Net profit	3 703	3 430	+8.0%

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

**valuation of financial instruments (Zara, Sephora, Bukva, Paritet-Smyk, Smyk Rosja, Maratex i EPCD).

The most significant events at the EM&F Group during the nine-month period ended 30 September 2008.

- Net sales of the EM&F Group for the first nine months of 2008 increased by 51.5% to PLN 1.44 billion compared with PLN 953.3 million in the same period of 2007 (net sales for Q3 2008 increased 58.0% to PLN 525.2 million compared with PLN 332.4 million in Q3 2007). This includes the sales of Maratex, a company acquired by the EM&F Group in Q4 2007, and those of the companies acquired by Optimum Sport in June 2008; the amounts do not include sales of Zara and Sephora, in which the Group holds minority stakes.
- Total EBITDA in the first nine months of 2008 increased by 81.3% to PLN 96.0 million compared with PLN 52.9 million for the 2007 period (in Q3 2008 EBITDA rose 75.0% to PLN 28.0 million compared with PLN 16.0 million in Q3 2007).

EBITDA from core activities (excluding financial instruments and the employee option incentive scheme) increased by 77.4% to PLN 92.1 million in the first three quarters of 2008 compared with PLN 51.9 million in the first nine months of 2007 (in Q3 2008 EBITDA from core activities increased 78.9% to PLN 28.1 million compared with PLN 15.7 million in Q3 2007).

- Total net profit of the EM&F Group increased by 102.2% to PLN 28.7 million in the first months of 2008 compared with PLN 14.2 million in the first nine months of 2007 (in Q3 2008 total net profit rose 8.0% to PLN 3.7 million compared with PLN 3.4 million in Q3 2007).

Net profit from core activities of the Group (excluding financial instruments and employee option incentive scheme) increased by 44.6% to PLN 21.3 million in the first nine months of 2008 compared

with PLN 14.7 million in the first nine months of 2007 (in Q3 2008 basic net operating profit rose 8.0% to PLN 3.1 million compared with PLN 2.8 million in Q3 2007).

- The capital expenditures of the Group were PLN 166.4 million in the first nine months of 2008 compared with PLN 130.7 million in the same period of 2007 (in Q3 2008 capital expenditures were PLN 53.4 million compared with PLN 52.7 million in Q3 2007).

- FINANCING

- In 2008, the Management Board of NFI EM&F decided to increase the total value of the Bonds programme to PLN 300 million. In the first three quarters of 2008, NFI EM&F issued bonds with a total nominal value of PLN 194.3 million. The company used part of the funds to repay short-term bonds with a total value of PLN 7.8 million. As at 30 September 2008, there were on the market EM&F Group bonds with a total nominal value of PLN 241.5 million. There are also bonds issued by Empik on the market with a total nominal value of PLN 15 million. The proceeds from the issue of bonds are used to implement EM&F Group development strategy.
- In order to secure financing for further development of the Group in 2009, the company completed talks with Pekao S.A. concerning extension of an investment credit. 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 credit agreement for a total of PLN 150 million with Pekao S.A. bank. Most of the credit will be used for financing of the development of the retail distribution network and IT and logistics infrastructures of the Group.
The debt will be repaid in 20 equal instalments, from 30 September 2010 until 30 June 2015
- The Group's retail and service outlets network expanded by 197 stores with a total net retail space of 100,541 m².

- openings in Poland:

- Empik – 13 own stores and 6 agency-based stores,
- Smyk – 4 stores,
- Ultimate Fashion – 15 stores,
- Zara – 1 store,
- Learning Systems Poland – 3 Speak Up language schools.

In addition, as a result of the takeover by Optimum Sport of Soul, a company operating a luxury sports clothes and footwear stores network in Poland and the Czech Republic, the Group increased its distribution network by 14 outlets with total net retail space of 1,213 m².

As a result of implementation of an investment agreement and joint-venture operations of Empik Sp. z o.o. and HDS Polska S.A., the EM&F Group's network also includes 47 cafes with total retail space of 3,738 m², which are managed by Empik Cafe.

- openings abroad:

- Empik / Bukva – 2 stores in Ukraine,
- Smyk – 1 store in Ukraine, 3 stores in Russia and 1 store in Turkey (the first Smyk store in Turkey),
- Maratex – 31 stores in Russia (Esprit, Orsay, Palmers, Bodique, Peacocks brands), 6 stores in Ukraine (Esprit, Hugo Boss, Aldo and Palmers brands) and 2 stores in Kazakhstan (Esprit and Aldo brands),
- Learning Systems Ukraine – 4 Speak Up language schools in Ukraine,
- Learning Systems Russia - 1 Speak Up language school in Russia (the first language school in Russia).

Moreover, as a result of the takeover of the German company Spiele Max AG, which operates a specialist children's store network in northern and eastern Germany, the Group extended its distribution network by 43 outlets with total retail space of 65,952 m².

As at the end of September 2008, the retail and service network of the Group included 638 outlets with total net retail space of 276,186 m2.

➤ 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.
- On 24 April 2008, EPCD Sp. z o.o., a subsidiary of NFI Empik Media & Fashion S.A., entered into an agreement with an affiliated entity of Perfums Christian Dior S.A. ("PCD"), 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. EM&F Group holds indirectly 80% of shares in EPCD Sp. z o.o., and PCD holds the remaining 20%.
- On 25 April 2008, Optimum Sport Sp. z o.o. (subsidiary of NFI Empik Media & Fashion S.A.) made an agreement on the acquisition of shares in Amersport Sp. z o.o., Pol And 1 Sp. z o.o. and Soul Sp. z o.o., wholesale and retail Converse, CAT and Merrell sports footwear distributors. The companies hold licences for distribution on the Polish, Czech, Slovak, Belarusian and Ukrainian markets.
- On 27 May 2008, Empik Sp. z o.o. acquired a subsequent 21% stake in Magalla Holdings Limited with its registered seat in Cyprus, and thus increased its control over Bukva LLC, a company operating a Empik/Bukva stores network in Ukraine, to 100%.
- On 11 June 2008, Smyk Sp. z o.o. acquired indirectly a subsequent 15% stake in Madras Enterprises Limited with its registered seat in Cyprus, an owner of the Ukrainian company Paritet-Smyk LLC, operating Smyk stores network in Ukraine. Currently, Smyk Sp. z o.o. holds 80% of shares in the Cyprus-based company.
- On 2 September 2008 Smyk Sp. z o.o. acquired 100% of shares in German company Spiele Max AG, which operates a specialised children's store network in northern and eastern Germany.

➤ 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 cosmetics of Dr Murad and Dunlop, Carlton and Slazenger brands, offering tennis, badminton and squash equipment, as well as the Lotto brand, offering football clothes.
 - Optimum Distribution CZ&SK s.r.o. concluded an agreement for the distribution of Orlane, Nina Ricci, Paco Rabanne and Carolina Herrera cosmetics.
- Smyk:
 - Opening of the first store in Russia in February 2008 and the next two stores in Q3 2008.
 - Opening of the first 'pilot' store in Turkey in September 2008.
- Maratex:
 - The company opened the first stores of newly acquired franchise brands Hugo Boss, Orsay, Palmers and Bodique in Russia and Ukraine.
- Ultimate Fashion:
 - The company opened first stores of newly acquired franchise brands Cortefiel, Pedro del Hierro and Bodique.

- Language schools:
 - Opening of first Speak Up language school in Russia.

➤ Other events:

The Group continued the development and improvement of logistics and IT platforms/infrastructure as part of a project implemented with Accenture, Exorigo and other partners. The project includes all companies of the Group. As the portfolio of the companies constantly grows and the Group pursues international expansion, the project supports the Group's further development, as well as achieving significant savings and improving effectiveness of many key business processes.

Smyk group companies – implementation of the state-of-the-art Oracle Retail Predictive Application Server planning platform (including strategic and financial planning applications, store and assortment planning tools and OTB) and transaction system (including store system, inventory turnover management system) in Smyk in Ukraine and Turkey.

The company commenced the first phase of implementation of the Oracle Business Intelligence-based analytical platform allowing for multi-level data analysis and completed the first phase of integration with the Spiele Max transaction system in Germany.

Empik Group companies – in order to improve the efficiency of store inventory turnover planning, Empik Sp. z o.o., in cooperation with DHL Exel Supply Chain Sp. z o.o., opened a new central warehouse for the Empik Polish store chain in Sochaczew and a new central warehouse for Ukrainian Bukva LLC company (Empik/Bukva stores) in Kiev. The Group is implementing logistics solutions in the Empik/Bukva central warehouse that will support other EM&F Group companies operating in Ukraine (Smyk, Maratex).

Moreover, state-of-the-art reporting tools have been launched and new IT solutions were implemented strengthening integration with key suppliers (EDI), resulting in significant savings in the purchase and invoice verification processes.

LSP group companies - implementation of new Business Intelligence reporting tools as part of a new unified transaction system, servicing language schools in Poland and abroad.

Maratex and Ultimate Fashion group companies - opening of a new central warehouse in Moscow in cooperation with Itella, as well as introduction of a number of IT solutions improving integration with key brands suppliers.

Optimum Distribution group companies - completion of the first phase of integration with Amersport reporting system (the first stage of integration of the company within the Group).

Moreover, in order to improve the effectiveness of reporting, control and financial consolidation of the EM&F Group, the first phase of implementation of the Hyperion Financial Management system was completed.

Economic situation and market trends

1. Macroeconomic situation in Poland

According to GIME, in the third quarter of 2008 the annual GDP growth rate was 4.4% compared to the equivalent period of the last year.

Domestic demand remained the main factor behind economic growth, with its growth in Q3 2008 estimated by GIME at 5.6%. The growth of total consumption and the growth of gross capital expenditures also contributed to the high domestic demand growth rate.

Development of the EM&F Group retail network during the first nine months of 2008.

	9 months 2008		9 months 2007		Change % 9 months 2008 vs 9 months 2007	
	Outlets	Retail area	Outlets	Retail area	Outlets	Retail area
Media & Entertainment	392	186 388	246	93 905	59.3%	98.5%
Empik Stores	144	65 963	116	54 744	24.1%	20.5%
Empik Cafe*	47	3 738	-	-		
Empik Foto Labs**	15	-	15	-		
Language Schools	80	-	67	-	19.4%	
Smyk	63	50 735	48	39 161	31.3%	29.6%
Spiele Max	43	65 952	-	-		
Fashion & Beauty	227	59 031	81	17 003	180.2%	247.2%
Ultimata Fashion	113	23 049	81	17 003	39.5%	35.6%
Maratem	100	34 769	-	-		
Optimum Sport	14	1 213	-	-		
Total (excluding Zara Polska)	619	245 419	327	110 908	89.3%	121.3%
Zara Polska	19	30 767	16	23 225	18.8%	32.5%
Total	638	276 186	343	134 134	86.0%	105.9%

* Contribution in kind of a café to Empik Cafe Sp. z o.o. is currently being formally registered.

** Empik Foto services are being gradually included in the offer of Empik stores.

Results of Group operations for the first nine months of 2008 and in Q3 2008

Net sales

Net sales of the Group increased during the first nine months of 2008 by 51.5% to PLN 1.44 billion, compared with PLN 953.3 million for the first nine months of 2007 (net sales for Q3 2008 increased by 58% to PLN 525.2 million, compared with PLN 332.4 million in Q3 2007).

This increase resulted from the high sales growth of 9.0% in LTL stores¹, high sales growth in NLTL stores² and contributions made by 150 newly opened outlets. The revenues generated by Maratex, acquired by the Group in Q4 2007, had a significant impact on the increase of sales of the Group. Additionally, the sales of EM&F include the sales of companies acquired by Optimum Sport in June 2008 and the sales of Spiele Max, a German company acquired in September 2008.

Sales of the EM&F Group by market in the region are shown in the table below:

	9 months 2008	9 months 2007	Increase % 9 months 2008 vs 9 months 2007	Q3 2008	Q3 2007	Increase % Q3 2008 vs. Q3 2007
Retail distribution						
POLAND	1 010 662. 5	799 160.4	26%	345 521.8	280 801.1	23%
FOREIGN MARKETS	268 180.1	24 414.6	998%	111 270.4	8 846.6	1158%
Wholesale distribution						
POLAND	128 746.5	94 643.1	36%	56 222.3	30 685.3	83%
FOREIGN MARKETS	36 290.1	35 073.2	3%	12 200.5	12 023.3	1%
Total distribution in Poland	1 139 409. 0	893 803.5	27%	401 744.1	311 486.3	29%

¹ LTL – outlets operating for no less than 12 months as at 30 September 2008.

² NLTL – outlets opened in 2007, operating for less than 12 months.

Total distribution abroad	304 470.2	59 487.7	412%	123 470.9	20 869.9	492%
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PLN'000	9 months 2008	9 months 2007	2008 vs 2007 %
Net sales	1 443 879	953 291	+51.5%
<i>Fashion & Beauty</i>	490 104	207 957	+135.7%
<i>Media & Entertainment</i>	953 775	745 334	+28.0%

PLN'000	Q3 2008	Q3 2007	2008 vs 2007 %
Net sales	525 215	332 356	+58.0%
<i>Fashion & Beauty</i>	184 417	73 432	+151.1%
<i>Media & Entertainment</i>	340 798	258 924	+31.6%

Fashion & Beauty

Net sales in the Fashion & Beauty segment increased during the first nine months of 2008 by 135.7% to PLN 490.1 million, compared with PLN 208.0 million for the first nine months of 2007 (and by 151.1% to PLN 184.4 million in Q3 2008 compared to PLN 73.4 million in Q3 2007).

This increase mainly resulted from the significant contribution by Maratex, acquired in September 2007; the dynamic growth of the Maratex and Ultimate Fashion franchise store chains and the high growth of revenues generated by those chains, and the good results achieved by Optimum Distribution and EPCD. Additionally, sales of companies recently acquired by Optimum Sport, consolidated starting from 1 June 2008, had an impact on revenue growth in that segment.

The following facts are of particular note:

- The high revenue growth of Maratex³, acquired in September 2007, which amounted to 56.3% during the first nine months of 2008 – while revenue growth in LTL stores was 13.4% (the revenue growth in LTL stores was 18.4% in Q3 2008) – resulted from the opening of 39 new stores in Russia, Ukraine and Kazakhstan and high revenue growth in existing stores⁷.
- The high revenue growth of Ultimate Fashion, which rose 61.2% during the first nine months of 2008, resulted from the high revenue growth in LTL⁴ stores, which rose 11.0% during the first nine months of 2008 (10.8% in Q3 2008), and a significant contribution of NLTL⁵ stores, as well as the opening of 15 new stores in Poland.
- Consolidation of sales of companies acquired by Optimum Sport in April 2008 had a positive impact on revenues in the Fashion & Beauty segment for the period of first nine months of 2008.
- The companies dealing in wholesale of cosmetics, optical products, clothes and sports footwear in Poland (Optimum Distribution PL and EPCD PL) recorded 7.3% sales growth, mainly as a result of the growth of sales of cosmetics, resulting from the steady expansion of the brand portfolio and the increase in the number of outlets operated by the company's clients.
- The companies dealing in wholesale of cosmetics and optical products in the Czech Republic and Slovakia (Optimum Distribution CZ&SK and EPCD CZ&SK) had sales growth of 11.6%, mainly as a result of the growth of sales of mass-market and luxury cosmetics.

³ Pro-forma comparison of sales growth of Maratex for Q3 2008 and the first nine months of 2008 with the periods of Q3 2007 and the first nine months of 2007, when it was not consolidated by the EM&F Group since Maratex was acquired in Q4 2007.

⁴ LTL – outlets operating for not less than 12 months as at 30 September 2008

⁵ NLTL – outlets opened in 2007, operating for less than 12 months.

During this period, the retail network of the Group expanded by 68 new stores (including 14 stores operated by the group of companies acquired by Optimum Sport).

Media & Entertainment

Net sales in the Media & Entertainment segment increased during the first nine months of 2008 by 28% to PLN 953.8 million, compared with PLN 745.3 million for the first nine months of 2007 (and by 31.6% to PLN 340.8 million in Q3 compared to PLN 258.9 million in Q3 2007).

This high sales growth was maintained by all companies operating in the segment. Sales growth at Empik and Smyk companies was 22.5% and 36.5% respectively, with high sales growth maintained at the LTL stores⁶, at 8.4% and 8.4% respectively, sales growth at NLTL stores⁷, as well as contributions made by the newly opened stores: 21 Empik stores in Poland and Ukraine and 9 Smyk stores in Poland, Russia, Ukraine and Turkey. In Q3 2008, sales growth was 4.9% at LTL Empik stores and 6.4% at LTL Smyk stores, compared with Q3 2007.

Additionally, consolidation of one month's sales of Spiele Max, acquired in September 2008, had a positive impact on the revenue growth in that segment for first nine months of 2008.

Toys (34.1%) and children's clothes (15.2%) were among the product categories carried by Smyk which recorded the highest sales growth.

The following product categories accounted for the largest share of Empik's sales during the first nine months of 2008: stationery products (38.8%), films (30.1%), multimedia (28.6%), hardware⁸ (24.0%), books (23.9%) and music (19.6%).

Sales of the language school network increased in the first nine months of 2008 by 26.9% compared with the first nine months of 2007, due to a significant contribution made by LTL schools¹⁰ (12.6%), NLTL schools¹¹, and 8 newly opened schools in Poland, Russia and Ukraine. The greatest sales expansion was recorded for courses offered by Speak Up schools (60.0% sales growth) as well as courses for children (34.0%) and courses for adults (10.0%) offered by empik school network.

During Q3 2008, sales growth in LTL schools was 18.7% over Q3 2007.

During the nine-month period, the Group's network expanded by a total of 73 stores (including 43 stores operated by Spiele Max AG, acquired in September 2008) and 8 language schools.

On account of the investment agreement and joint-venture agreement between Empik Sp. z o.o. and HDS Polska S.A., 47 Empik Cafes are included in the Media & Entertainment segment.

EBITDA and EBIT

During the first nine months of 2008, total EBITDA increased by 81.3% to PLN 96.0 million, compared with PLN 52.9 million during the first nine months of 2007 (by 75% to PLN 28.0 million in Q3 2008, compared with PLN 16.0 million in Q3 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 stores⁹, NLTL stores¹⁰ and newly opened stores, positive changes in currency exchange rates and valuation of financial instruments.

Notable is the fact that during this period, the share of Fashion & Beauty segment in EBITDA of the Group increased to 43.1% (compared with 29.8% during the first nine months of 2007).

⁶ LTL - outlets operating for no less than 12 months as at 30 September 2008

⁷ NLTL – outlets opened in 2007, operating for less than 12 months

⁸ Hardware includes MP3 players, video game consoles, mobile phones and accessories.

⁹ LTL - outlets operating for no less than 12 months as at 30 September 2008

¹⁰ NLTL – outlets opened in 2007, operating for less than 12 months

EBITDA from core activities (excluding financial instruments and the valuation of the employee option incentive scheme) increased by 77.4% during the first nine months of 2008 to PLN 92.1 million, compared with PLN 51.9 million during the first nine months of 2007 (by 78.9% to PLN 28.1 million in Q3 2008, compared with PLN 15.7 million in Q3 2007).

Fashion & Beauty

During the first nine months of 2008, EBITDA from core activities (excluding financial instruments and the valuation of the employee option incentive scheme) in the Fashion & Beauty segment increased by 167.2% to PLN 42.1 million compared with PLN 15.7 million during the first nine months of 2007 (by 262.8% to PLN 14.6 million in Q3 2008 compared with PLN 4.0 million in Q3 2007).

A significant contribution to EBITDA was made by Maratex. Additionally, Optimum Sport companies and companies dealing in wholesale distribution of cosmetics had a positive impact.

Media & Entertainment

During the first nine months of 2008, EBITDA from core activities (excluding financial instruments and the valuation of the employee option incentive scheme) in the Media & Entertainment segment increased by 35.6% to PLN 51.7 million, compared with PLN 38.1 million during the first nine months of 2007. The increase resulted from high sales growth at existing Empik, Smyk and LSP outlets and increased gross margins, mainly at Smyk and Empik.

During the first nine months of 2008, EBITDA margin from core activities (excluding financial instruments and the valuation of the employee option incentive scheme) of the Group increased to 6.38%, compared with 5.45% during the first nine months of 2007 (5.34% in Q3 2008, compared with 4.72% in Q3 2007). The increase of EBITDA margin resulted mainly from the strict control of operating costs, a better product mix and positive impact of currency exchange gains in H1 2008.

Additionally, the value of financial instruments had a positive impact, which more than made up for the cost of the employee option incentive scheme.

Of note is the fact that the Group managed to increase EBITDA margin for the first nine months of 2008 despite the negative influences of seasonal factors in the first and third quarters that are typical for the retail sector, of the dynamic increase in the scale of operations, and of lower profitability experienced by newly opened stores in their start-up phase. This mechanism is discussed in further detail in the part entitled "The influence of seasonal factors and the dynamic growth of retail network on profitability".

EBIT

During the first nine months of 2008, EBIT of the Group rose 108.3% to PLN 42.9 million, compared with PLN 20.6 million during the first nine months of 2007, resulting in a 3.0% increase in EBIT margin, compared with 2.2% in the similar period of 2007.

In Q3 2008, EBIT increased by 116.8% to PLN 8.6 million, compared with PLN 4.0 million in Q3 2007.

Profit from operating activities (EBIT) for the period of first nine months of 2008 reflects very good profits from core activities of the Group (an increase of 99.5% to PLN 39.1 million, compared with PLN 19.6 million during the first nine months of 2007) as well as the valuation of financial instruments held in the Group's portfolio. Additionally, EBIT was influenced by the valuation of the employee option incentive scheme.

Comparison of EBITDA and EBIT for the periods of first nine months of 2008 and 2007

PLN' 000	9 months 2008	9 months 2007	2008 vs 2007 %
EBITDA from core activities*	92 095	51 907	+77.4%
<i>% of sales</i>	<i>6.38%</i>	<i>5.45%</i>	
Profit from revaluation of financial instruments**	14 745	5 199	

Valuation of employee option incentive scheme	-10 887	-4 178	
EBITDA	95 953	52 928	+81.3%
<i>% of sales</i>	<i>6.65%</i>	<i>5.55%</i>	
Amortisation and impairment losses	-53 021	-32 320	
EBIT / Profit from operating activities	42 932	20 609	+108.3%
<i>% of sales</i>	<i>3.0%</i>	<i>2.2%</i>	

* excluding financial instruments (Zara, Sephora i EPCD) and valuation of employee option incentive scheme

** valuation of financial instruments (Zara, Sephora i EPCD).

Comparison of EBITDA and EBIT for the Q3 2008 and 2007

PLN' 000	Q3 2008	Q3 2007	2008 vs 2007 %
EBITDA from core activities*	28 051	15 681	+78.9%
<i>% of sales</i>	<i>5.34%</i>	<i>4.72%</i>	
Profit from revaluation of financial instruments**	2 820	1 582	
Valuation of employee option incentive scheme	-2 913	-1 287	
EBITDA	27 957	15 976	+75.0%
<i>% of sales</i>	<i>5.32%</i>	<i>4.81%</i>	
Amortisation and impairment losses	-19 322	-11 994	
EBIT / Profit from operating activities	8 635	3 982	+116.8%
<i>% of sales</i>	<i>1.6%</i>	<i>1.2%</i>	

* excluding financial instruments (Zara, Sephora i EPCD) and valuation of employee option incentive scheme

** valuation of financial instruments (Zara, Sephora i EPCD).

Net profit

During the first nine months of 2008, total net profit of the EM&F Group increased by 102.2% to PLN 28.7 million, compared with PLN 14.2 million during the first nine months of 2007 (by 8.0% to PLN 3.7 million in Q3 2008 compared with PLN 3.4 million in Q3 2007).

Net profit from core activities of the Group (excluding financial instruments and the valuation of the employee option incentive scheme) increased by 44.6% to PLN 21.3 million during the first nine months of 2008, compared with PLN 14.7 million during the first nine months of 2007 (by 8.0% to PLN 3.1 million in Q3 2008 compared with PLN 2.8 million in Q3 2007).

The large increase in net profit from core activities of the Group was made possible due to significantly higher sales revenues and gross margins (resulting in a high increase of EBITDA). These factors outweighed the negative impact of increasing depreciation and finance costs, related with the extensive expansion of the Group companies' retail network.

Net profit margin on core activities of the Group during the first nine months of 2008 was 2% compared with 1.5% during the first nine months of 2007.

Of note is the fact that the Group managed to increase EBITDA margin for the first nine months of 2008 despite the negative influences of seasonal factors in the first and third quarters that are typical for the retail sector, of the dynamic increase in the scale of operations, and of lower profitability experienced by newly opened stores in their

start-up phase. This mechanism is discussed in further detail in the part entitled “The influence of seasonal factors and the dynamic growth of retail network on profitability”.

PLN'000	9 months 2008	9 months 2007	2008 vs 2007 %
Net profit from core activities *	21 256	14 700	+44.6%
<i>% of sales</i>	<i>1.47%</i>	<i>1.54%</i>	
Profit from revaluation of financial instruments**	18 342	3 679	
Valuation of employee option incentive scheme	-10 887	-4 178	
Net profit	28 711	14 202	+102.2%

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

**valuation of financial instruments (Zara, Sephora, Bukva, Paritet-Smyk, Smyk Russia, Maratex i EPCD).

PLN'000	Q3 2008	Q3 2007	2008 vs 2007 %
Net profit from core activities *	3 063	2 835	+8.0%
<i>% of sales</i>	<i>0.58%</i>	<i>0.85%</i>	
Profit from revaluation of financial instruments**	3 553	1 881	
Valuation of employee option incentive scheme	-2 913	-1 287	
Net profit	3 703	3 430	+8.0%

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

**valuation of financial instruments (Zara, Sephora, Bukva, Paritet-Smyk, Smyk Russia, Maratex i EPCD).

Capital expenditures

Capital expenditures incurred by the Group in the first nine months of 2008 were PLN 166.4 million compared with PLN 130.7 million in the same period of the previous year. A large part of the expenditures were connected with the openings of new stores and language schools, which in the nine-month period totaled PLN 104.7 million compared with PLN 91.9 million in the same period of 2007.

The remaining capital expenditures concerned rearrangement and modernisation of the existing sales network (see the description by segments presented below), continued implementation of IT systems in the Group companies (for details see page 6), IT and multimedia equipment investments, and the openings of two central warehouses in Sochaczew and Kiev for the Empik/Bukva network.

As a result of implementation of the expansion strategy of the Group in the region, significantly increased expenditures were incurred abroad, in particular in Russia, Kazakhstan and Ukraine, as presented in the table below.

PLN' 000	9 months 2008	9 months 2007
Poland	113 426	121 621
Russia, Ukraine, Kazakhstan, Czech Republic, Germany	52 926	9 110

PLN'000	9 months 2008			9 months 2007		
Investment expenditures	Total	New outlets	Rearrangement and modernisation, IT/Log projects	Total	New outlets	Rearrangement and modernisation, IT/

						Log projects
Fashion & Beauty	61 358	55 961	5 397	41 547	39 157	2 390
Media & Entertainment	99 032	48 698	50 334	87 758	52 767	34 991
Total	160 390	104 659	55 731	129 305	91 924	37 381
Centralised EM&F projects	5 962	-	5 962	1 426	-	1 426
Total	166 352	104 659	61 693	130 731	91 924	38 807

PLN'000	Q3 2008			Q3 2007		
Investment expenditures	Total	New outlets	Rearrangement and modernisation, IT/Log projects	Total	New outlets	Rearrangement and modernisation, IT/Log projects
Fashion & Beauty	17 853	17 223	630	14 116	13 835	281
Media & Entertainment	32 718	14 747	17 971	37 996	22 736	15 259
Total	50 571	31 970	18 601	52 112	36 571	15 541
Centralised EM&F projects	2 796	-	2 796	563	-	563
Total	53 367	31 970	21 397	52 675	36 571	16 104

Fashion & Beauty

Capital expenditures in the Fashion & Beauty segment were PLN 61.4 million in the first nine months of 2008 compared with PLN 41.5 million in the same period the previous year.

The expenditures were mainly related to investments in the development of the franchise stores network.

In the nine-month period, Ultimate Fashion expanded its sales network by 15 outlets in Poland (openings in Gdynia, Warsaw and Bydgoszcz).

In addition, Maratex opened the total of 39 stores, including stores in Russia (the cities of Rostov, Perm, Ufa Ryazan, St Petersburg, Wladimir, Krasnojarsk, Kaliningrad, Moscow, Czelabinsk, Omsk and Nowosybirsk), in Ukraine (Kharkov, Kiev, Dnepropietrowsk and Odessa) and in Kazakhstan (Astan).

Moreover, Optimum Sport opened 1 store in Poland (in Warsaw).

The total retail space of the newly opened stores in this segment of operations was 13,506 m².

Other investments concerned mostly the implementation of modern IT and logistics systems in the Fashion & Beauty segment stores (for details see page 6) and the renovation and modernisation of existing stores, including a general makeover of the ESPRIT flagship store located on Marszalkowska Street in Warsaw, operated by Ultimate Fashion. The ALDO store located in Arkadia Shopping Mall in Warsaw underwent renovation to meet the newest brand concept, resulting in increased retail space. Renovations were also completed at the Esprit store in Galeria Mokotow in Warsaw, the Wallis store in Alfa Shopping Mall in Gdansk, and two Mango stores, one located in the Galaxy Shopping Mall in Szczecin and one at Polwiejska in Poznan.

Media & Entertainment

Capital expenditures in the Media & Entertainment segment totalled PLN 99.0 million in 2008 compared with PLN 87.8 million in the equivalent 2007 period.

Almost half of the funds were spent for development of the sales network.

During the nine-month period, 19 Empik stores were opened in Poland (including 13 own stores in: Sosnowiec, Wrocław, Warsaw, Bydgoszcz, Biała Podlaska, Konin, Zielona Góra, Rybnik, Opole, Krakow and Słupsk and 6 agency-based stores opened in: Belchatow, Oława, Świdnica, Żywiec, Police and Swarzędz) and 2 Empik/Bukva stores in Ukraine (Kiev).

Also, openings worth noting included those of the first 3 Smyk stores in Russia (St. Petersburg, Moscow and Novosibirsk).

LSP opened 3 new language schools in Poland (in Szczecin, Częstochowa and Rzeszów), 4 schools in Ukraine (in Kiev and Odessa) and 1 school in Russia (in Moscow).

Moreover, a newly acquired company, Spiele Max, opened a store in Germany (in Cottbus).

The total retail space of the newly opened stores in this segment was 15,920 m2.

Empik incurred expenditures related to the opening of central warehouses in Sochaczew and Kiev for the Polish and Ukrainian outlets network in order to improve the effectiveness of store inventory turnover management. In addition, the *Media & Entertainment* companies continued implementation of new IT and logistics systems (for details see page 6) and incurred capital expenditures related to the modernisation of existing stores.

The influence of seasonal factors and the dynamic growth of retail network 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, when 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 Group, 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.

Continuing 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		525	490	428	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
					%	%	%	%	%	%	%	%	%	%	%	%
Sales year to date		1 444	919	428	1 585	953	621	296	1 131	704	465	218	920	583	387	187
Gross margin		224	236	177	272	134	141	118	181	97	104	89	145	76	82	72
Gross margin %		42.6%	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

Between 1 October and 14 November 2008, the Group opened **21 stores**, i.e. 15 in Poland, 4 in Ukraine, 1 in Russia and 1 in Germany.

Financing

Management Board of NFI Empik Media & Fashion S.A. increased the total value of the bonds programme to a total amount of PLN 300 million. On 13 October 2008, the Company signed annexes to agency, dealer and underwriting agreements that were signed with BRE BANK on 5 December 2007.

On 30 September 2008, there were on the market EM&F Group bonds with a total nominal value of PLN 241.5 million. There are also bonds issued by Empik on the market with a total nominal value of PLN 15 million.