CONSOLIDATED ANNUAL REPORT OF
LPP S.A. CAPITAL GROUP FOR FY 2008

CONTAINING:

- LETTER FROM THE PRESIDENT OF THE MANAGEMENT BOARD
- SELECTED FINANCIAL DATA FOR 2007 – 2008
- CONSOLIDATED FINANCIAL STATEMENTS
- MANAGEMENT'S DISCUSSION AND ANALYSIS (WITH CORPORATE GOVERNANCE STATEMENT)
- LETTERS OF REPRESENTATION OF THE MANAGEMENT BOARD

April 2009

LETTER FROM THE PRESIDENT OF THE MANAGEMENT BOARD

Dear Shareholders,

Yet again, 2008 was another year that saw the dynamic development of our sales networks offering Reserved, Cropp, and Esotiq clothing brands to our customers. The total selling area was increased by over 44 thousand square metres. On top of that, for the first time ever in our Company's history, we implemented the strategy of development based on an acquisition. In November we closed the acquisition of Artman S.A. – the owner of House clothing brand. As a result, as at the end of 2008, we operated 612 stores of the total selling area of 224 thousand square metres.

We also launched our operations in Romania, where the first Reserved and Cropp Town stores were opened. We built the necessary organisational structures to open our first stores in Bulgaria. After more than a year of intensive works, our warehouse and distribution centre in Pruszcz Gdański was opened. This Centre has 30 thousand square metres and cutting edge technologies, making it possible to distribute more than 1 million items of clothing per week.

The amount of revenues and profits indicates that 2008 was a very successful year. I do hope that these results will be satisfactory to and welcomed by all owners of LPP S.A.

2008 saw the first signs of a major economic slowdown verging on recession. In view of this downturn, we have been taking efforts to ensure the optimum performance of our company in these difficult times. We modified our collections to respond to the reduced buying power of our customers, we decided to cut our costs, and we reviewed our development plans, focusing on the most profitable locations. At the same time, we are doing our best to identify all potential opportunities that can be used to strengthen our market position.

I am confident that our efforts will be crowned with success and will fuel further growth of our company, to the satisfaction of all our Shareholders.

President of the Management Board

Marek Piechocki

SELECTED CONSOLIDATED FINANCIAL DATA FOR FY 2007 - 2008

Selected financial data – consolidated statements

	2008	2007	2008	2007
Selected financial data	in PLN '000		in EUR '000	
Net revenues from sales of products, goods and materials	1 622 999	1 274 332	459 500	337 411
Operating profit (loss)	214 774	175 275	60 806	46 408
Gross profit (loss)	213 225	165 832	60 368	43 908
Net profit (loss)	167 507	134 749	47 424	35 678
Net cash flow from operations	195 433	172 971	55 331	45 798
Net cash flow from investments	-577 244	-96 591	-163 428	-25 575
Net cash flow from financial activity	418 210	-53 497	118 403	-14 165
Total net cash flow	36 399	22 883	10 305	6 059
Total assets	1 426 208	697 155	341 820	194 627
Long-term payables	322 316	33 358	77 250	9 313
Short-term payables	534 792	256 287	128 174	71 549
Equity	565 235	405 662	135 470	113 250
Share capital	3 492	3 407	837	951
Weighted average number of ordinary shares	1 691 857	1 703 500	1 691 857	1 703 500
Earnings (loss) per ordinary share (EPS) (in PLN/EURO)	99.01	79.10	28.03	20.94
Book value per share – BVPS (in PLN/EURO)	334.09	238.13	80.07	66.48

Earnings per share (EPS) were calculated as net profit divided by the number of shares.
Book value per share (BVPS) was calculated as equity divided by the number of shares.

Marek Piechocki

President of the

Management Board

Alicja Milińska	*Stanisław Dreliszak*	*Dariusz Pachla*	*Aleksander Moroz*
Vice President of the	*Vice President of the*	*Vice President of the*	*Vice President of the*
Management Board	*Management Board*	*Management Board*	*Management Board*

CONSOLIDATED FINANCIAL STATEMENTS OF LPP S.A.
For the fiscal year ended 31 December 2008

1. Consolidated Balance Sheet

Balance Sheet	Notes	As at the end of:	
ASSETS		31/12/2008	31/12/2007
Non-current assets (long-term)		770 448	288 043
1. Tangible fixed assets (Property, Plant & Equipment)	13.1	472 712	258 334
2. Intangible assets	13.3	14 073	12 186
3. Goodwill	13.2	183 609	
4. Trademark		77 508	
5. Investments	13.4	1 431	910
6. Receivables		1 061	3 589
7. Deferred income tax assets	13.19	19 857	13 020
8. Prepaid expenses	13.16	197	4
Current assets (short-term)		655 760	409 112
1. Inventories	13.6	470 320	289 527
2. Trade and other receivables	13.7	89 475	60 809
3. Prepaid expenses	13.16	5 688	3 235
4. Investments	13.4	446	2 109
5. Cash and cash equivalents	13.8	89 831	53 432
TOTAL assets		**1 426 208**	**697 155**

LIABILITIES			
Equity		565 235	405 662
1. Share capital	13.9	3 492	3 407
2. Treasury shares		-48 746	
3. Reserve capital	13.9	436 334	274 748
4. Other reserves		193	104
5. Revaluation reserve		-143	
6. Minority interests		314	
7. Retained profit/accumulated loss carried forward from previous years		9 353	-7 067
8. Net profit/loss of the reporting period		167 507	134 749
9. Foreign exchange differences (conversion of related parties)		-3 069	-279
Long-term payables		322 316	33 358
1. Borrowings (bank credits and loans)	13.14	306 097	27 865
2. Other financial payables		359	
3. Provisions	13.11	874	563
4. Deferred income tax provision	13.19	14 844	
5. Other long-term payables		142	4 930
Short-term payables		534 792	256 287
1. Trade and other payables	13.15	248 192	166 692
2. Borrowings (bank credits and loans)	13.14	246 966	57 017
3. Other financial payables		432	
4. Income tax liabilities		30 848	23 443
5. Provisions		8 297	8 992
6. Special funds	13.11	57	143
Accruals and deferred income		3 865	1 848
TOTAL liabilities		**1 426 208**	**697 155**
Book value		565 235	405 662
Weighted average number of ordinary shares		1 699 124	1 703 500
Book value per share – BVPS (in PLN)		332.66	238.13

2. Consolidated Profit and Loss Account

Profit and Loss Account	Notes	01/01/2008-31/12/2008	01/01/2007-31/12/2007
Revenues from sales	13.17	1 622 999	1 274 332
Cost of sales		657 969	521 362
Gross profit/loss on sales		965 030	752 970
Other operating revenues	13.17	8 647	5 492
Selling expenses	13.18	637 437	497 610
General administrative expenses	13.18	93 248	69 867
Other operating expenses	13.18	28 218	15 710
Operating profit (loss)		214 774	175 275
Financial revenues	13.17	18 376	1 532
Financial expenses	13.18	19 925	10 975
Gross profit/loss		213 225	165832
Taxation	13.19	45 718	31083
Net profit/loss		**167 507**	**134 749**
Net profit of the parent company		167 474	
Net profit of the minority shareholders		33	
Weighted average number of ordinary shares		1 699 124	1 703 500
Earnings (loss) per ordinary share (EPS) (in PLN)		98.58	79.10

Earnings per share (EPS) for each period is calculated by dividing net profit for the reporting period by the weighted average number of shares in this period.

Statement of Changes in Equity

Statement of changes in equity	Share capital	Treasury shares	Reserve capital	Other reserves	Revaluation reserve	Minority interests	Retained profit/accumulated loss carried forward from previous years	Net profit/loss of the reporting period	Foreign exchange differences (conversion of related parties)	TOTAL equity
As at 1 January 2007	3 407		232 266	83			37 220	0	310	273 286
- corrections of errors from previous years							-1 784			-1 784
As at 1 January 2007 (corrected)	3 407		232 266	83			35 436	0	310	271 502
Foreign exchange differences after conversion of related parties									-589	-589
Distribution of retained earnings from previous years			42 482	21			-42 503			0
Net profit for FY 2007								134 749		134 749
As at 31 December 2007	3 407		274 748	104	0	0	-7 067	134 749	-279	405 662
As at 1 January 2008	3 407		274 748	104			127 682	0	-279	405 662
- corrections of errors from previous years							-22			0
As at 1 January 2008 (corrected)	3 407	0	274 748	104			127 660	0	-279	405 640
Foreign exchange differences after conversion of related parties									-2 790	-2 790
Buy-back of treasury shares		-48 746								-48 746
Increase in share capital	85									85
Share issue above share nominal value			36 920							36 920
Distribution of FY07 profit			118 312	89			-118 401			0
Share-based payments			6 354							6 354
Revaluation of goodwill					-143					-143
Measurement of minority interest as at the accounting reference date						314				314
Other							94			94
Net profit for FY 2008								167 507		167 507
As at 31 December 2008	3 492	-48 746	436 334	193	-143	314	9 353	167 507	-3 069	565 235

3. Consolidated Cash Flow Statement

Cash Flow Statement	01/01/2008-31/12/2008	01/01/2007-31/12/2007
A. Cash flow from operations – indirect method		
I. Gross profit (loss)	213 225	165 832
II. Total adjustments	-17 792	7 139
1. Depreciation and amortisation	66 360	49 746
2. Foreign exchange (gains) losses	539	2 427
3. Interest and profit sharing (dividends)	11 819	3 235
4. (Profit) loss from investments	8 478	1 086
5. Income tax paid	-39 149	-12 299
6. Change in provisions	2 108	7 925
7. Change in inventories	-121 908	-62 554
8. Change in receivables	-14 865	-15 387
9. Change in short-term payables, excluding credits and loans	69 449	35 566
10. Change in prepaid expenses, accruals and deferred income	238	-118
11. Other adjustments	-861	-2 488
III. Net cash flow from operations	195 433	172 971
B. Cash flow from investments		
I. Inflows	7 383	2 513
1. Sale of intangible assets and tangible fixed assets	3 955	1 127
2. From financial assets, of which:	3 428	1 386
a) in related parties	1 239	922
- dividends and profit sharing	1 239	922
b) in other entities	2 189	464
- sale of financial assets		
- interest	156	110
- repayment of short-term loans granted	2 033	354
- repayment of long-term loans granted		
- other inflows from financial assets		
3. Other inflows from investments		

II. Outflows	584 627	99 104
1. Acquisition of intangible assets and tangible fixed assets	252 869	98 343
2. On financial assets, of which:	852	761
a) in related parties	0	0
- acquisition of shares		
b) in other entities	852	761
- short-term loans granted	59	596
- long-term loans granted	793	165
3. Other outflows on investments	330 906	
III. Net cash flow from investments	-577 244	-96 591
C. Cash flow from financial activity		
I. Inflows	634 549	18 707
1. Inflows from the issue of shares	37 005	
2. Credits and loans	597 544	18 707
3. Other financial inflows		
II. Outflows	216 339	72 204
1. Buy-back of treasury shares	48 746	
2. Repayment of credits and loans	148 901	66 347
3. Payments related to finance lease agreements	542	37
4. Interest	18 150	5 820
5. Other financial outflows		
III. Net cash flow from financial activity	418 210	-53 497
D. Total net cash flow	36 399	22 883
E. Total cash flow balance, of which:	36 399	22 883
- change in cash – foreign exchange differences	3 540	-2 044
F. Opening cash balance	53 432	30 549
G. Closing cash balance, of which:	89 831	53 432
- restricted cash	68	157

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF LPP CAPITAL GROUP FOR FY 2008

INTRODUCTION

1. General information

Name and registered office of the parent company of LPP Capital Group:

LPP Spółka Akcyjna
with its registered office in Gdańsk, Poland
ul. Łąkowa 39/44
ZIP code: 80-769

Core business:
1. wholesale sales of clothing, classified in item 51.42 Z of the Polish Classification of Economic Activities (PKD) as "wholesale sales of clothing and footwear",
2. retail sales of clothing, classified in item 52.42 Z as "retail sales of clothing".

Local Court of appropriate jurisdiction for the Parent Company
LPP S.A. is registered in the Local Court in Gdańsk-Północ, VII Commercial Division of the National Court Register in the Register of Entrepreneurs, entry no. KRS 0000000778.

Place of business
The Group operates in the following countries:
- Poland,
- Estonia,
- the Czech Republic,
- Lithuania,
- Latvia,
- Hungary,
- Russia,
- Ukraine,
- Romania,
- Bulgaria,
- Slovakia

Sector as classified by the Warsaw Stock Exchange:

Shares of the parent company LPP S.A. are listed on the main market of the Warsaw Stock Exchange and classified in the sector "trade".

2. Members of the Issuer's Management Board and Supervisory Board

Members of the Management Board:
- Marek Piechocki - President of the Board
- Dariusz Pachla - Vice President of the Board
- Alicja Milińska - Vice President of the Board
- Stanisław Dreliszak - Vice President of the Board
- Aleksander Moroz - Vice President of the Board

Members of the Supervisory Board:

- Jerzy Lubianiec - Chairman of the Supervisory Board
- Krzysztof Olszewski - Member of the Supervisory Board
- Wojciech Olejniczak - Member of the Supervisory Board
- Maciej Matusiak - Member of the Supervisory Board
- Krzysztof Fąferek - Member of the Supervisory Board
- Antoni Tymiński - Member of the Supervisory Board (as of 30 June 2008)

3. Description of LPP Capital Group

LPP Capital Group (CG) is composed of:

- LPP S.A. – parent company,
- - 20 Polish subsidiaries,
- - 15 foreign subsidiaries.

There is no parent company of LPP S.A.

The complete list of Capital Group companies is presented below.

No.	Name of the company	Registered office	Date of obtaining control
1.	G&M Sp. z o.o.	Gdańsk, Poland	26.09.2001
2.	M&G Sp. z o.o.	Gdańsk, Poland	26.09.2001
3.	AKME Sp. z o.o.	Gdańsk, Poland	26.09.2001
4.	TORA Sp. z o.o.	Gdańsk, Poland	26.09.2001
5.	P&G Sp. z o.o.	Gdańsk, Poland	26.09.2001
6.	SL&DP Sp. z o.o.	Gdańsk, Poland	26.09.2001
7.	DP&SL Sp. z o.o.	Gdańsk, Poland	26.09.2001
8.	IL&DL Sp. z o.o.	Gdańsk, Poland	26.09.2001
9.	PL&GM Sp. z o.o.	Gdańsk, Poland	26.09.2001
10.	GM&PL Sp. z o.o.	Gdańsk, Poland	26.09.2001
11.	AMA Sp. z o.o.	Gdańsk, Poland	28.05.2002
12.	LIMA Sp. z o.o.	Gdańsk, Poland	22.07.2002
13.	LUMA Sp. z o.o.	Gdańsk, Poland	05.11.2002
14.	KAMA Sp. z o.o.	Gdańsk, Poland	29.10.2002
15.	KUMA Sp. z o.o.	Gdańsk, Poland	05.11.2002
16.	AMUL Sp. z o.o.	Gdańsk, Poland	29.10.2002
17.	AMUK Sp. z o.o.	Gdańsk, Poland	15.05.2003
18.	AMUR Sp. z o.o.	Gdańsk, Poland	09.05.2003
19	MM&MR Sp. z o.o.	Gdańsk, Poland	09.03.2005
20.	LPP Retail Estonia OU	Tallinn, Estonia	29.04.2002
21.	LPP Czech Republic s.r.o.	Prague, Czech Republic	16.09.2002
22.	LPP Hungary Kft	Budapest, Hungary	18.10.2002
23.	LPP Retail Latvia Ltd	Riga, Latvia	30.09.2002
24.	UAB LPP	Vilnius, Lithuania	27.01.2003

25.	LPP Ukraina	Peremyshlany, Ukraine	23.07.2003
26.	RE Trading Zamknięta Spółka Akcyjna	Moscow, Russia	12.02.2004
27.	LPP Fashion Distribuitor SRL	Bucharest, Romania	12.08.2007
28.	ES STYLE	Moscow, Russia	10.03.2008
29.	FASHION POINT	Moscow, Russia	01.04.2008
30.	LPP Retail Bulgaria Ltd.	Sofia, Bulgaria	14.08.2008
31.	Artman S.A. (GK Artman S.A.)	Kraków, Poland	30.10.2008
32.	Artman Slovakia s.r.o.(GK Artman S.A.)	Banská Bystrica, Slovakia	30.10.2008
33.	Artman Mode s.r.o.(GK Artman S.A.)	Ostrava, Czech Republic	30.10.2008
34.	UAB Artman Ltd (GK Artman S.A.)	Vilnius, Lithuania	30.10.2008
35.	UAB House Plius (GK Artman S.A.)	Klaipėda, Lithuania	30.10.2008

LPP S.A. holds direct control in its subsidiaries, i.e. 100% share in their capital and 100% of the total vote. Companies of Artman S.A. capital group, controlled indirectly by LPP S.A., are the only exception to this rule. As at the accounting reference date, LPP S.A. held 99.60% of share capital and 99.742% of votes at the General Meeting of Shareholders of Artman S.A..

The consolidated financial statements of the Capital Group, covering the period between 1 January and 31 December 2008, contains individual results of LPP S.A. and results of foreign subsidiaries listed below:

- LPP Retail Estonia OU
- LPP Czech Republic s.r.o.
- LPP Hungary Kft
- LPP Retail Latvia Ltd
- UAB LPP
- LPP Ukraina AT
- ZAO Re Trading
- LPP Fashion Distribuitor srl.
- ES Style
- Fashion Point
- LPP Retail Bulgaria Ltd.
- Artman S.A.
- Artman Slovakia srl
- Artman Mode s.r.o.
- UAB Artman Ltd
- UAB House Plius

Polish subsidiaries of LPP S.A. were not consolidated as their financial data is immaterial. This is in accordance with the Accounting Policy employed by the Group. Under this policy, a subsidiary or associate is not consolidated if results disclosed in the financial statements of this entity are immaterial compared to data disclosed in the financial statements of the parent company. In particular, the balance sheet total, net revenues from sales of goods and services and financial transactions of the entity representing less than 10% of the balance sheet total and revenues of the parent company in the reporting period shall be considered immaterial. The total amount of balance sheet totals and revenues of the non-consolidated entities must not exceed this level, but established in relation to the corresponding amounts of the consolidated financial statements, based on the assumption that the statements cover all subsidiaries and associates with no exceptions.

The share of all non-consolidated Polish subsidiaries in the consolidated results is as follows:

- in the Capital Group's balance sheet total – 0.35 %
- in the Capital Group's revenues from sales and financial revenues – 4.02 %.

The fact that financial statements of these companies are not consolidated does not affect the true and fair presentation of the Capital Group's assets, financial standing and financial result.

LPP S.A. is a company involved in the design and distribution of clothing in Poland and in Central and Eastern Europe. The consolidated Capital Group companies are involved in the distribution of goods under the Reserved and Cropp brands outside of Poland. In addition, Artman S.A. Capital Group has been consolidated since November 2008. Just like LPP S.A., Artman S.A. is involved in the design and distribution of clothing under two proprietary brands: House and Mohito. This clothing is sold in sales networks in Poland and several countries of the CEE region. Clothing is basically the only product sold by the CG companies. This offer is supplemented by footwear, bags and accessories.
Designs of clothing are prepared in the design office located at the registered office of LPP S.A. in Gdańsk (and the design office of Artman S.A. in Kraków), and then sent to the purchasing department, whose task is to outsource the manufacture of individual products to manufacturing plants in Poland and abroad. Production in China is managed by the Company's trading office in Shanghai.
In addition, the Capital Group generates small revenues from sales of services (these include only revenues generated by the Parent Company – mainly know-how services related to the management of brand stores by Polish contractors and lease of transport vehicles). 19 Polish subsidiaries are involved in the lease of real property where Cropp Town and Reserved outlets are located.

4. Legal basis of the financial statements and information on changes in the adopted accounting principles

Pursuant to the Accounting Act of 29 September 1994 (consolidated text: Journal of Laws of 2003 No. 76 item 694, as amended), as of 1 January 2005, LPP Capital Group shall present its consolidated financial statements drawn up in accordance with the International Financial Reporting Standards (IFRS) and related interpretations, published in the form of Regulations of the European Commission. In matters not covered by IFRS, provisions of Accounting Act shall be applied. Financial statements covering annual periods beginning before 1 January 2005 were prepared based on the Accounting Act and its implementing provisions. The Group decided not to exercise its rights resulting from the revision contained in IAS 1 as regards loans granted to subsidiaries, and does not classify these loans as subordinated loans.

This report contains the Group's consolidated financial statements and the separate financial statements of LPP S.A. The report was drawn up in accordance with IFRS.

These consolidated financial statements were drawn up in PLN.

5. Declaration of compliance with IFRS

These consolidated financial statements were drawn up in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union, covering standards and interpretations approved by the International Accounting Standards Board and International Financial Reporting Standards Interpretation Committee.

In these consolidated financial statements, LPP S.A. decided not to apply earlier the following published standards or interpretations before their effective dates:

1. The revised IFRS 3 (Z) Business Combinations – published on 10 January 2008 and applicable to financial statements for annual periods beginning on or after 1 July 2009. The revision concerns, among others, the revised recognition of other direct acquisition-related costs, recognition and settlement of step acquisitions (made in several transactions), measurement and recognition of goodwill and minority interest, as well as the approach to terms of payment.
2. IFRS 8 Operating Segments – published on 30 November 2006 and applying to financial statements for periods starting on or after 1 January 2009. This standard replaces IAS 14 Segment Reporting and requires, among others, identification of operating segments based on internal reports on the entity's components that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance.
3. The revised IAS 23 Borrowing Costs – published on 29 March 2007 and applicable to financial statements for annual periods starting on or after 1 January 2009. This revision eliminates the previously approved option to account for borrowing costs through profit or loss.
4. The revised IAS 1 Presentation of Financial Statements – published on 6 September 2007 and applicable to financial statements for annual periods starting on or after 1 January 2009. This revision includes changes in the terminology adopted for basic financial statements as well as the presentation of Balance Sheet, Profit and Loss Account, and Statement of Changes in Equity.
5. The revised IAS 27 Consolidated and Separate Financial Statements – published on 10 January 2008 and applicable to financial statements for annual periods starting on or after 1 July 2009. This revision refers to the acquisition or sale of shares in a transaction where control is retained, measurement of the residual holding in subsidiaries retained in the parent's financial statements after control is lost, and recognition of minority interest (non-controlling interest).
6. The revised IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements – published on 22 May 2008 and applicable to financial statements for annual periods starting on or after 1 January 2009. These revisions remove the definition of the cost method and replaced it with a requirement to recognise dividends as income in the separate financial statements.
7. The revised IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedge Items, published on 31 July 2008 and applicable to financial statements for annual periods starting on or after 1 July 2009. These revisions explain the application of principles to determine whether the hedged risk or part of cash flows meet the criteria adopted for eligible hedge items. Under these amendments, inflation cannot be used as a hedged component of any debt instrument.
8. The revised IFRS 2 Share-based Payment – published on 17 January 2008 and applicable to financial statements for annual periods beginning on or after 1 January 2009. This revision explains the definition of vesting conditions and the accounting treatment of termination of agreements related to share-based payments.
9. The revised IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – published on 14 February 2008 and applicable to financial statements for annual periods starting on or after 1 January 2009. Under the new requirements, financial instruments such as puttable financial instruments and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, subject to the fulfilment of certain requirements, shall be presented in equity.
10. IFRIC Interpretation 13 Customer Loyalty Programmes – published on 28 June 2007 and applicable to financial statements for annual periods beginning on or after 1 July 2008. This Interpretation contains guidelines for entities granting the so-called “loyalty points” to their customers on how to account for their obligation to provide free or discounted goods or services if and when the customers redeem the points.

11. IFRIC Interpretation 15 Agreements for the Construction of Real Estate – published on 3 July 2008 and applicable to financial statements for annual periods beginning on or after 1 January 2009. IFRIC 15 provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of IAS 11 or IAS 18, and, accordingly, when revenue from the construction should be recognised.
12. IFRIC Interpretation 16 Hedges of a Net Investment in a Foreign Operation – published on 3 July 2008 and applicable to financial statements for annual periods beginning on or after 1 October 2008. IFRIC 16 provides guidance on how to determine foreign currency exposure risks related to the functional currency and the presentation currency of the consolidated financial statements. This Interpretation also explains which entity within a group can hold a hedging instrument.
13. IFRIC Interpretation 17 Distributions of Non-cash Assets to Owners – published on 27 November 2008 and applicable to financial statements for annual periods beginning on or after 1 July 2009. IFRIC 17 provides guidance on the recognition and measurement of dividends and recognition of the difference between the dividend paid and the carrying amount of the net assets distributed.
14. IFRIC Interpretation 18 Transfers of Assets from Customers – published on 29 January 2009 and applicable to financial statements for annual periods beginning on or after 1 July 2009. IFRIC 18 provides guidance on the recognition of transfers of assets from customers, in particular when the definition of assets is met, recognition of revenues, and recognition of transfers of cash from customers.

As at the date of these financial statements, revisions of the following standards and interpretations had not been adopted by the European Union: IAS 39, IFRS 3 (Z), IAS 27, (Z), IFRIC 15, IFRIC 16, IFRIC 17, and IFRIC 18.

According to the Company's estimates, the above standards, interpretations and revisions would have no significant impact on the financial statements if applied as at the accounting reference date.

6. Going concern assumption

The consolidated financial statements for FY 2008, financial statements of the Parent Company, as well as financial statements of subsidiaries underlying the consolidated financial statements, were drawn up based on the assumption that these entities shall remain a going concern in the foreseeable future and that their respective businesses are not restricted to a considerable extent.
Based on the information available as at the date of preparation hereof, the going concern assumption adopted herein is fully justified.

7. Date of approval of the financial statements for publication

These financial statements were authorised for issue (i.e. approved for publication) by the Management Board of the Parent Company of LPP Capital Group on 16 April 2009.

8. Events after the balance sheet date

Under IAS 10, events after the balance sheet date include all events that occurred between the balance sheet date and the date when the financial statements are authorised for issue (i.e. approved for publication).
The Management Board is authorised to adjust the financial statements after publication.

In February 2009, LPP S.A. decided to acquire Artman S.A. with is registered office in Kraków.
Companies shall be merged in 2009 pursuant to Art. 492 § 1 of the Code of Commercial Companies (merger by take-over), i.e. by transferring all assets of Artman (as the Acquiree) to LPP (as the Acquirer). As a result of this merger, Artman S.A. shall be dissolved without liquidation.

9. Methods of measurement of assets and liabilities and determination of the financial result adopted in the consolidated report

Tangible fixed assets (PP&E) and intangible assets
Tangible fixed assets (Property, Plant & Equipment) are initially carried at cost, increased by all costs directly related to the purchase and necessary to bring the asset to working condition for its intended use. Costs incurred after the date when an asset was put into use, including costs of maintenance and repairs, are charged to the Profit and Loss Account as they are incurred. Borrowing costs are not included in the carrying amount of PP&E but recognised in profit or loss when incurred.
As at the accounting reference date, PP&E are measured at cost less depreciation and impairment losses. The Capital Group's depreciation write-offs are made on a straight-line basis. PP&E are depreciated over the asset's expected useful life verified on an annual basis. PP&E are also tested for impairment resulting from events or changes in the business environment or within the CG companies which could cause an impairment of these assets below their current book value.
For accounting purposes, based on the materiality principle, the adopted limits for one-off depreciation of PP&E or non-inclusion of an asset in PP&E are equal to tax limits.
As a result, LPP S.A. adopted the following rule: whenever the initial carrying amount of a tangible fixed asset or property right exceeds PLN 3,500.00, monthly depreciation write-offs are made starting from the month following the month when the asset is put into use.
If the initial carrying amount of PP&E is below PLN 3,500.00, two accounting methods are adopted based on the materiality principle:

- the asset is recorded in the fixed assets register or intangible assets register and depreciated on a one-off basis in the month when the asset is put into use;

or

- the asset is recorded in the off-balance sheet register and written off on purchase (allocated to cost of consumption of materials recorded in the month of purchase).

Foreign companies have also adopted this principle; however the adopted limits are based on their respective local regulations (which are comparable in different countries).
Under the accounting policy adopted by the Capital Group, straight-line depreciation of low-price assets may be applied in justified cases if all the following circumstances occur simultaneously:

- a large number of tangible fixed assets are purchased at the same time and their unit price is within the adopted limit, but their total value is material,
- these assets are a part of a larger set of uniform and/or interconnected units, and their purchase is related to a large investment project to be implemented at least over the period of normative depreciation specified for this particular group of fixed assets in tax regulations,
- these tangible fixed assets are high quality and high availability (HA) assets.

This situation has occurred twice so far and was related to:

- purchase of a large set of computer hardware for the implementation of the Company's new IT system,
- outlays made by Capital Group companies in relation to investments in the construction and furnishing of new Reserved and Cropp brand stores – implementation of a new project of brand stores layout and design.

Intangible assets are measured and amortised in the same way as tangible fixed assets. The main difference is that it is not possible to increase the initial carrying amount of intangible assets by the amount of their improvement (upgrade), unless these upgrades can be used to generate future economic benefits exceeding benefits assumed initially.

Assets under construction – as at the balance sheet date they are carried in the total amount of costs directly related to their acquisition or construction, less impairment losses.

Long-term investments in the CG include:

- - shares held by LPP S.A. in Polish subsidiaries – carried at cost less impairment losses,
- long-term loans granted – measured as at the balance sheet date at depreciated cost estimated using the effective interest method, less impairment losses.

Long-term prepaid expenses include:

- deferred income tax assets – subsequently measured as at each balance sheet date,
- prepaid expenses related to prepaid lease rent.

Inventories
Inventories are carried at the lower of cost and net realisable value at the balance sheet date.
Inventories include:

- trading commodities,
- materials (fabrics and sewing accessories) purchased and issued for processing to external contractors,
- IT consumables related to operation, maintenance and development of a computer network,
- advertising materials.

Trading commodities in local warehouses are recorded by quantity and value and measured as follows:

- imported goods – at costs, including purchase prices, costs of transport abroad and cost of transport in Poland up to the first unloading point in Poland, as well as customs duties; currency rate specified in customs documents is used for the conversion of amounts expressed in foreign currency,

- goods purchased in Poland – at cost; purchase-related costs are charged directly to costs of ordinary operations when they are incurred, as they represent an immaterial amount. Trading commodities issued from Reserved, Cropp, Esotiq and Henderson collections are measured at weighed average prices.

For trading commodities from other collections, the FIFO method is employed.

Trading commodities in bonded warehouses are measured at cost, including their purchase price and costs of transport abroad and cost of transport in Poland up to the first unloading point in Poland.

The value of goods issued from bonded warehouses (moved to local warehouses or sold directly abroad) is measured based on detailed identification of goods for individual lots accepted to bonded warehouses.

Trading goods in transit are measured at cost (purchase price) plus costs of transport abroad and in Poland determined as the balance sheet date. Imported goods in transit are measured by the Parent Company based on the average exchange rate published by Raiffeisen Bank Polska S.A. as at the balance sheet date (in the case of foreign companies – selling rate published by their respective banks or average exchange rate of a central bank in their country).

Inventories whose trading and useful value is impaired are written down. Inventory revaluation write-downs are charged to other operating expenses.

Receivables

Trade receivables are recognised and disclosed at amounts initially invoiced, including write-downs on irrecoverable receivables and doubtful receivables (allowance for uncollectible amounts).

Taking into account the relatively short payment terms (below 120 days), the above rule does not result in any material changes in the measurement of receivables vs. the measurement method set out in IAS 39 based on discounting of these receivables. Revaluation write-downs of receivables are made based on the type of receivables:

- claimed receivables (amounts claimed in court and amounts due from debtors in the process of liquidation or filing for bankruptcy) – in the total amount receivable,
- other receivables – write-downs are made based on a case-by-case analysis and assessment of the situation and risk of potential losses.

Short-term investments

These include investment assets which are payable, mature or held for sale within 12 months after the balance sheet date, as well as cash.

Short-term investments are measured as at the balance sheet date based on the following principles:

- long-term loans granted – at depreciated cost estimated using the effective interest rate,
- local cash in hand – at nominal value,
- cash in foreign currencies at the currency purchase rate adopted on this day by local banks with which these companies usually co-operate (i.e. banks with the highest volume of transactions with the company).

Short-term accruals and deferred income

These include costs related to future reporting periods to be settled within 12 months after the balance sheet date.

Share capital
Share capital is disclosed in the amount specified in the Articles of Association and entered in the court register.

Reserve capital
The amount presented under Reserve Capital includes:
- share premium – issue of shares at the price exceeding their nominal value less costs of issue,
- profits carried forward from previous years, based on decisions of General Meetings of Shareholders.
- amounts of share-based payments made in respect of certain persons under the incentive scheme (equity-settled share-based payment programme).

Profit/loss from previous years (retained profit/accumulated loss carried forward)
This item presents net financial result carried forward from previous fiscal years, until the decision is made on how to distribute the profit/offset the loss, as well as adjustments of financial results related to previous years, resulting from fundamental errors or changes in the adopted accounting principles.

Payables
Trade payables with maturity date usually from 30 to 90 days are recognised and disclosed at amounts initially invoiced.
Taking into account the relatively short payment terms (below 120 days), the above rule does not result in any material changes in measurement of payables vs. the measurement method set out in IAS 39 based on discounting of these payables.
Financial payables are measured at amortised cost.

Provisions
Provisions are made for deferred income tax and employee benefits.
Provisions for employee benefits include:
- provision for holiday leaves not taken
- provision for future retirement benefits.

Provision for future retirement benefits is measured individually by Capital Group companies, taking into account the length of service, gender, and the current amount of remuneration. It was assumed that the discount related to the provision for retirement benefits is equal to the expected salary growth rate. There were no actuarial gains or losses in the reporting period.

Revenues
Revenue is recognised to the extent that it is probable that economic benefits related to a given transaction will flow to the Company and that they can be reliably measured.
Revenues from the sale of goods are recognised when the significant risks and rewards of ownership have passed to the buyer.
Given the complaints and returns from customers, revenues from the sale of goods are adjusted based on a correction of the estimated cost of these returns. Based on our experience to date, the ratio of product return has been estimated against sales volume. It was also assumed that the majority of product returns occur within the first quarter following the purchase. The value of this ratio (against prime costs and revenues) is defined every quarter.

Revenue from interest is accrued on a time basis up to the net carrying amount of the financial asset.

Borrowing costs
Borrowing costs are recognised by the Capital Group as set out in IAS 23, i.e. expensed immediately in the period when incurred.

Transactions in foreign currencies
The functional currency in LPP Capital Group is the Polish zloty (PLN).

As at the transaction date, assets and liabilities denominated in foreign currencies are carried at the following exchange rates, respectively:
- purchase or selling rate used by the Company's bank – in the case of purchase or sale of foreign currencies and repayment of receivables or payables,
- average exchange rate set by the central bank for this currency as at the invoice date or specified in the respective customs document.

The following items denominated in foreign currencies are measured as at the balance sheet date:
- monetary items:
  - assets – at the Company's bank purchase rate adopted as at this date,
  - liabilities – at the Company's bank selling rate adopted as at this date.
- non-monetary items – at the historical exchange rate as at the transaction date.

Grants
Government grants are recorded to the extent that their respective revenue is recognised in proportion to their associated costs.

The Company has adopted the following methods of presentation of Government grants in its financial statement:
- grants to assets – are recognised initially as a separate item under "Deferred income", and subsequently on a time basis as a revenue over the useful life of the respective asset;
- grants to revenues – as an item under "Other operating/financial revenues".

Earnings Per Share
Earnings per share for each period is calculated by dividing net profit for the period by the weighted average number of shares of the Parent Company in this period. The Group does not present diluted earnings/loss per share as there are no significant factors diluting EPS.

Share-based payment
Under Resolution of the Annual Meeting of Shareholders of 29 June 2007, the Parent Company has an incentive scheme in place offering shares issued within the company's authorised capital to its employees and associates. The incentive scheme will be implemented in 2007-2010 and will cover up to 15,000 shares of LPP S.A.

The main precondition for the implementation of the incentive scheme in individual years is that LPP S.A. Capital Group generates profits higher than in the previous year, respectively:
a) up by 70% for profit generated in 2007 (i.e. net profit for 2007 must be at least 70% higher than net profit generated in 2006). This condition was satisfied in 2007;
b) 10% for profit generated in the following years.

The scheme may be participated by a group of about 100 persons who will resign from additional remuneration (awards) which may be granted in exchange for the positive performance appraisal by the Management Board, and provided that the number of shares which may be granted to an eligible person equals 120% of the gross amount of an award divided by the stock market price of LPP S.A. shares, as quoted in the Warsaw Stock Exchange on the day before the respective resolution of the Management Board (or the Supervisory Board in the case of the Management Board members) is taken. Shares will be taken over by the eligible persons at the nominal price, i.e. PLN 2.00 per share.

For the Management Board members, the amount of an award is determined in accordance with the respective resolution of the Supervisory Board. The amount of this award depends on the amount of net profit generated by LPP S.A. Capital Group and must not be more than 20 times higher than gross monthly remuneration of each member of the Management Board of LPP S.A.

Segment reporting

The scope of financial information reportable for individual segments of the Group's business is based on the requirements of IAS 14.
The Group adopted the classification into geographical segments – i.e. segments related to business activities in different geographical areas. Two segments have been identified:

- business within the European Union
- business in other countries.

Division into geographical segments was based on the criterion of location of the Group's assets.

Segment assets (liabilities) are those operating assets (liabilities) used in segment operations that are directly attributable or reasonably allocable to a segment.

Segment result is determined at the operating profit level.
Segment revenue, result, assets and liabilities are determined before eliminating intersegment transactions, after intra-segment eliminations.

Hyperinflation

Under provisions of IAS 29 Financial Reporting in Hyperinflationary Economies, entities operating in a hyperinflationary economy should restate individual items of their share capital by applying a general price index. Results of this restatement should be disclosed as negative amounts under "retained earnings" in the Balance Sheet. This restatement is made to reflect the impact of hyperinflation on the entity's financial result in the respective reporting period. In Poland, the period 1989 – 1996 is considered a period of hyperinflationary economy. However, the Management Board is in doubt whether a disclosure of this hyperinflationary restatement in the Balance Sheet as an accumulated loss brought forward from previous years is justified, taking into account that it refers to events which occurred before 1996 or earlier, and the corresponding earnings had been distributed before these financial statements were drawn up. In addition, it is not clear whether such disclosure of the hyperinflationary restatement has any effect under provisions of the Code of Commercial Companies, as regards e.g. the amount of dividend to be paid out, amount of payments on account of dividends, or conditions which require adoption of a resolution on the entity's remaining a going concern. Therefore, the Management Board is of the opinion that the direct disclosure of this restatement in the Balance Sheet drawn up as at 31 December 2008 could be misleading for users of these financial statements, and decided to present relevant amounts, ratios, and conversion methods related to the hyperinflationary restatement in Note 13.8 to the financial statements.

Financial statements of LPP Capital Group are drawn up based on the historical cost method.

Cash flow statement
For the purposes of the cash flow statement, the Group classified the following items as cash:
- cash in hand, cash in banks, and cash in transit,
- other cash, including third-party cheques, third-party promissory notes, traveller's cheques, as well as third-party bonds, deposits, etc., if payable (mature) within 3 months from the date of their issue (acquisition, deposition),
- other monetary assets, including interest on short- and long-term financial assets, i.e. deposits, bonds, Treasury notes, etc., payable as at the balance sheet date.

10. Financial risk management

The main financial instruments used by LPP Capital Group include bank credits and loans granted (Note 13.5 and 13.14). The main objective of these financial instruments is to secure financing of the Company's operations. LPP S.A. has other financial instruments established in the course of its business operations. These include mainly cash and deposits (Note 13.8) as well as trade receivables and payables (Note 13.7 and 13.15).
In accordance with IFRS 7, the scope of risks related to financial instruments that the Group is exposed to was analysed.
a) credit risks
Credit risk is related mainly to trade receivables, in the amount disclosed in the Balance Sheet, as well as guarantees granted to third parties.

Concentration of credit risk related to trade receivables is presented in the table below.

Customer	share of receivables (%) in the total amount of receivables
Customer 1	17.47%
Others, with receivables representing less than 5% of the total amount of receivables	82.53%
Total net trade receivables	100.0%

Classification of gross trade receivables by the period of non-payment as at 31 December 2008 and 31 December 2007 is presented in the following table:

in PLN '000	2008	2007
Not overdue	40 542	37 221
Overdue up to 1 year	31 106	10 558
Overdue more than 1 year	3 822	3 143
Total	**75 470**	**50 922**

Most of the receivables overdue more than 1 year and up to 1 year have been written down.
No hedging instruments for the above financial risks and no hedge accounting are used by LPP S.A..

b) liquidity risks

The Group’s objective is to maintain balance between the continuity and flexibility of financing by using overdraft facilities or investment credits.

In comparison with the previous year, credit exposure of LPP S.A. (as at 31 December 2008) increased significantly. Note 13.14 presents details of the Company’s financial standing in terms of bank credits incurred. Increase in long-term debt vs. the end of 2007 resulted to a large extent from the buy-back of treasury shares of LPP S.A. On the other hand, increase in long-term debt resulted from the utilisation of investment credit tranches used to finance the construction of a new warehouse and distribution centre, as well as utilisation of a credit used to finance the acquisition of Artman S.A..

Liquidity risks also included payables related to goods and services.

Classification of gross trade payables by the period of non-payment as at 31 December 2008 and 31 December 2007 is presented in the following table:

in PLN ‘000	2008	2007
Not overdue	168 888	36 241
Overdue up to 1 year	20 853	10 005
Overdue more than 1 year	107	74
Total	**189 848**	**146 320**

Payables increased significantly vs. the end of FY 2007, as the Balance Sheet also includes payables of Artman S.A.. The balance of payables of the “old” LPP Capital Group did not increase, which indicates that the Group continued its efforts to introduce the new collection to stores earlier than in the previous periods, extend the scope of the Company's business, and increase its importance among suppliers.

c) currency risk

The majority of transactions related to purchase of trading commodities are denominated in USD; a small portion of these transactions is settled in EURO. Revenues from sales are denominated mainly in PLN. The strengthening of PLN against USD and EURO stopped in late 2008, and the current weakening of the Polish currency is a source of great risk.

Given the specific type of the Group’s business, it is possible to partially pass the risk of the increase in USD exchange rate to end customers, as the product selling price is calculated just before the product is introduced to the market.

Apart from the currency risks related to the settlement currency used in the purchase of trading commodities, there are also other currency risks related to the settlement of rent for the leased commercial premises in EURO.

d) interest rate risk

Interest rate risks are related to bank credits utilised by the Capital Group on a regular basis, as well as loans granted by the Company (on a smaller scale). Bank credits with floating interest rate create cash flow risks. The Management Board believes that interest rate changes will have no significant impact on the Capital Group’s results.

The analysis of the impact of interest rate changes and foreign exchange rate changes on the Group’s P&L Account and its equity is presented in the following tables. This analysis includes the financial items of the Company’s Balance Sheet as at the balance sheet date.

Interest rate risk *in PLN '000*

+/- 75 basis points			
Balance Sheet items	***Amount ****	***Impact on financial result***	***Impact on financial result***
Financial assets			
Cash	76 172	674	-674
Deposits	13 659	102	-102
Loans granted	1 159	9	-9
Impact on financial assets before tax		*785*	-785
Tax (19%)		-149	149
Impact on financial assets after tax		*636*	*-636*
Financial liabilities			
Bank credits/loans	553 063	-4 148	4 148
Impact on financial liabilities before tax		*-4 148*	*4 148*
Tax (19%)		788	-788
Impact on financial liabilities after tax		-3 360	*3 360*
Total		***-2 724***	***2 724***

As at 31 December 2008, the Group's net profit would be down by PLN 2,724k if interest rates in PLN, EUR and USD were up by 75 basis points, assuming that all other parameters remained unchanged. It results from the higher balance of borrowings vs. cash and loans granted.

As at 31 December 2008, the Group's net profit would be up by PLN 3,199k if the rate of PLN was up by 5% vs. foreign currencies (mainly USD), assuming that all other parameters remained unchanged. It results from the greater impact of the measurement of liabilities denominated in foreign currencies over foreign receivables. The weakening of PLN by 5% vs. foreign currencies as at 31 December 2008 would have the same impact in terms of the amount, but with the opposite sign (-/+).

11. Critical accounting estimates and judgments

Estimates influencing the amounts disclosed in the financial statements refer to:

- the estimated economic useful life of Property, Plant and Equipment,
- the residual value of Property, Plant and Equipment, as well as intangible assets,
- the ratio of returns of products sold in the reporting period, occurring in the next reporting period,
- revaluation write-downs of assets,
- discount rate, the estimated increase in salaries, and actuarial assumptions used to calculate the amount of provisions for retirement benefits,
- the future tax results taken into account when calculating deferred income tax assets.

The methodology employed by the Company is based on the best knowledge of the Management Board and is in line with the requirements of IFRS.
Methods of determination of the estimated amounts are applied consistently in relation to the previous reporting period.

The following estimated amounts remained the same as in the previous period:

- discount rate, the estimated increase in salaries, and actuarial assumptions used to calculate the amount of provisions for retirement benefits,
- the future tax results taken into account when calculating deferred income tax assets.

The following estimated amounts have changed in line with the adopted methodology:

- the estimated economic useful life of Property, Plant and Equipment – applying only to a passenger elevator with a shaft (a new depreciation period was determined after its upgrade),
- sales adjustment ratio related to returns of goods made in the next reporting period.

Changes in revaluation write-downs are presented below in Notes to individual items of assets.

12. Principles of consolidation

The consolidated financial statements of the Capital Group has been drawn up based on financial statements of all material subsidiaries employing the same methods of measurement and principles of preparation of financial statements as the Parent Company.
The consolidated financial statements of the Capital Group include the relevant data from the financial statements of the Parent Company and statements of foreign subsidiaries denominated in the local currency of their respective countries, converted to PLN based on the following principles:

- assets and liabilities presented in the Balance Sheet (with the exception of equity) are converted at the average exchange rate published by the National Bank of Poland for this particular currency as at the balance sheet date;

- items in the Profit and Loss Account are converted at the exchange rate calculated as an arithmetic average of average exchange rates published by the National Bank of Poland for this particular currency as at the last day of each month during the fiscal year;
- items in the cash flow statement are converted at the exchange rate calculated as an arithmetic average of average exchange rates published by the National Bank of Poland for this particular currency as at the last day of each month during the fiscal year;
- equity is converted as at the date when the control was obtained by the Parent Company, at the average exchange rate published by the National Bank of Poland as at that date.

Equity includes the following separate items:
- share capital,
- other equity,
- profits (losses) carried forward from previous years,
- net financial result,
- foreign exchange differences, including in particular foreign exchange differences resulting from different methods of conversion of net financial result and Balance Sheet into PLN.

The method of full consolidation was adopted.
The following adjustments and non-consolidation principles were adopted:
- interest held by the Parent Company in the equity of subsidiaries is not consolidated,
- intercompany payables and receivables are not consolidated,
- revenues and expenses related to the Capital Group intercompany sale and purchase transactions are not consolidated,
- adjustments for unrealised profits related to the Capital Group inventory,
- interest on loans granted by the Parent Company to its subsidiaries is excluded from financial revenues and expenses,
- adjustments of the Capital Group's financial result related to deferred income tax on foreign exchange differences and interest on loans granted within the Group as at the balance sheet date.

Marek Piechocki

President of the

Management Board

Alicja Milińska	*Stanisław Dreliszak*	*Dariusz Pachla*	*Aleksander Moroz*
Vice President of the	*Vice President of the*	*Vice President of the*	*Vice President of the*
Management Board	*Management Board*	*Management Board*	*Management Board*

Gdańsk, 16 April 2009

13. Notes to the financial statements

13.1 Tangible fixed assets (Property, Plant & Equipment)

PP&E is depreciated on a straight-line basis based on the following depreciation rates:

- buildings, facilities and civil- and hydro-engineering structures: 2.5 - 50%,
- plant and machinery: 5 - 66%
- transport vehicles: 10 - 33%,
- other tangible fixed assets: 14 - 50%.

The initially adopted economic useful life of PP&E is reviewed on an annual basis.

In the reporting period, no write-downs of PP&E made previously were used or reversed.

In addition to its own PP&E, the Group uses leased PP&E based on lease agreements, with net carrying amount of PLN 508k. Under IAS 17, it is limited to finance lease and transport vehicles only.

All disclosures required for finance leases are presented below:

		in PLN '000
	as at 31.12.2008	
Item	minimum lease payments + interest	present value of the minimum payments (principal instalments only)
Future minimum payments under finance lease agreements	789	718
Payable within 1 year	439	386
Payable within 1 to 5 years	350	332
Payable after 5 years	0	0
Future minimum payments under finance lease agreements – total	**789**	**718**
Financial expenses (interest only)	71	
Present minimum value of finance lease payments (principal instalments only)	**718**	**718**

Compensations related to tangible fixed assets, received by the Group in 2008, amounted to PLN 1,348 k and resulted mainly from vehicle-related damage.

The Group has idle PP&E (temporarily out of use) with the initial carrying amount of PLN 138 k.

PP&E used by the Group is fully depreciated. Its initial carrying amount is PLN 38,280 k.

As at the accounting reference date, the use of real property in Pruszcz Gdańsk, where a new warehouse and distribution centre is being built, was subject to limitations. The same applies to real properties in Kraków and Group 8 PP&E.

As at 31 December 2008, the Group's contractual obligation related to the purchase of tangible fixed assets totalled PLN 9,781 k.
As at the balance sheet date, the Group had no tangible fixed assets held for sale or discontinuing operations.

The Group has no information on the fair value of Property, Plant and Equipment currently in use and is under no obligation to disclose this data.

CHANGES IN PROPERTY, PLANT AND EQUIPMENT (by groups) in the period from 01-01-2008 to 31-12-2008 in PLN '000

	land	buildings, facilities and civil- and hydro-engineering structures	plant and machinery	transport vehicles	other PP&E	PP&E under construction	payments on account of PP&E	Total PP&E
1) gross opening balance of PP&E	12 283	212 256	60 691	6 560	45 089	47 715	4 994	389 588
- foreign exchange differences		4 985	2 236	-92	415	100	15	7 659
- increase	4 455	187 989	37 497	5 065	24 237	188 984	17 093	465 320
- increase resulting from the acquisition of Artman	2 436	39 137	4 735	1 941	6 489	34		54 772
- reduction		3 665	1 985	2 238	1 607	220 544	18 467	248 506
2) gross closing balance of PP&E	19 174	440 702	103 174	11 236	74 623	16 289	3 635	668 833
3) opening balance accumulated depreciation	0	78 250	32 515	2 924	16 293	0	0	129 982
- depreciation	0	35 801	14 259	1 257	10 909	0		62 226
- foreign exchange differences		2 791	1 548	-107	464			4 696
- reduction	0	3 176	1 793	1 477	1 105	0	0	7 551
4) closing balance accumulated depreciation	0	113 666	46 529	2 597	26 561	0	0	189 353
5) opening balance impairment losses	0	1 273	0	0	0	0	0	1 273
- increase	0	4 931	363	0	201	0	0	5 495
- reduction	0		0	0	0	0	0	0
6) closing balance impairment losses	0	6 204	363	0	201	0	0	6 768
Total net closing balance of PP&E	19 174	320 832	56 282	8 639	47 861	16 289	3 635	472 712

CHANGES IN PROPERTY, PLANT AND EQUIPMENT (by groups) in the period from 01.01.2007 to 31.12.2007 in PLN '000

	land	buildings, facilities and civil- and hydro-engineering structures	plant and machinery	transport vehicles	other PP&E	PP&E under construction	payments on account of PP&E	Total PP&E
1) gross opening balance of PP&E	12 337	175 788	49 975	4 816	30 587	10 835	3 425	287 763
- foreign exchange differences		- 3 289	-1 695	-34	-979	-1 087	-785	-7 869
- increase		44 271	13 671	2 652	16 063	99 540	6 600	182 797
- reduction	54	4 514	1 260	874	582	61 573	4 246	73 103
2) gross closing balance of PP&E	12 283	212 256	60 691	6 560	45 089	47 715	4 994	389 588
3) opening balance accumulated depreciation	0	56 053	23 598	2 740	9 815	0	0	92 206
- foreign exchange differences		-866	-581	-11	-185			-1 643
- depreciation	0	27 057	10 793	874	7 175	0		45 899
- foreign exchange differences		-495	-316	-2	-215			-1 028
- reduction	0	3 499	979	677	298	0	0	4 453
4) closing balance accumulated depreciation	0	78 250	32 515	2 924	16 293	0	0	129 981
5) opening balance impairment losses	0	1 566	167	0	0	0	0	1 723
- foreign exchange differences		-29	-11					-40
- increase	0	768		0	0	0	0	768
- reduction	0	1 022	156	0	0	0	0	1 178
6) closing balance impairment losses	0	1 273	0	0	0	0	0	1 273
Total net closing balance of PP&E	12 283	132 733	28 176	3 636	28 796	47 715	4 994	258 334

Impairment losses – items in the 2008 P&L account	Amount
- increase – “Revaluation of non-financial assets”	5 495
- reversal – “Other operating revenues”	0

Impairment losses – items in the 2007 P&L account	Amount
- increase – “Revaluation of non-financial assets”	768
- reversal – “Other operating revenues”	446

13.2 Goodwill

On 30 October 2008, LPP S.A. acquired shares of Artman S.A. representing 99.554% of share capital and 99.696% of votes at the AGM. This acquisition was financed with a bank credit (current report RB 50/2008 of 13 August 2008).

In accordance with IFRS 3, the cost of this business combination totalled PLN 338,739k, of which:

- cash transferred in exchange for shares acquired from shareholders – PLN 394,363;
- additional expenses directly related to this transaction, including legal advice, tax audits, and business travel expenses,
- shares issued by LPP S.A. for the key shareholders of Artman S.A..

The acquisition of Artman S.A. was made pursuant to the Investment Agreement based on the tender offer for sale of Artman S.A. shares addressed to all shareholders of Artman S.A. in accordance with the applicable regulations. As a result, LPP S.A. acquired 4,256,485 shares for the per-share price of PLN 92.65, as defined in the Agreement, of the total amount of PLN 394,363, partially settled with LPP S.A. shares at the share exchange ratio defined in the Agreement.
LPP S.A. issued 40,000 series J shares, subsequently taken over by the key shareholders of Artman S.A. at the per-share price of PLN 2,350, as determined in the Investment Agreement, of the total amount of PLN 94 million. The fair value of this issue recorded in the accounts of LPP S.A. in accordance with IFRS 3.27 totalled PLN 37 million – at the stock exchange price applicable at the date of obtaining control, i.e. PLN 925 per share.

As at the date of obtaining control by LPP S.A., Artman S.A. capital group recorded the following assets and liabilities in its accounts, in accordance with their carrying amount determined under IFRS 3, used for the calculation of goodwill:

Assets

	in PLN ‘000
1. Tangible fixed assets (Property, Plant & Equipment)	54 772
2. Intangible assets	397
3. Goodwill	406
4. Deferred income tax assets	1 509
5. Inventories	53 961
6. Receivables	11 507
7. Prepaid expenses	597
8. Investments	159
9. Cash and cash equivalents	7 727
Total assets	**131 035**

Liabilities

	in PLN '000
1. Borrowings (bank credits and loans)	16 873
2. Other financial payables	1 247
3. Provisions	2 788
4. Provision for deferred income tax	1 801
5. Payables	29 838
6. Accruals and deferred income	107
Total liabilities	**52 654**

Goodwill was measured in accordance with IFRS 3 at cost, i.e. as the difference between cost of acquisition and the portion of fair value of assets and liabilities of the subsidiary equal to the share of the parent in this subsidiary.

By measuring all assets existing as at the date of obtaining control over Artman S.A., the group identified an intangible asset in the form of a trademark, in accordance with IAS 38, and presented it separately in the Balance Sheet.

Goodwill calculated and recognised in the consolidated statements of LPP S.A. is equal to the amount of assets which cannot be identified or reported separately, but are expected to bring certain benefits.

As at the accounting reference date, goodwill on acquisition of Artman S.A. capital group totalled PLN 183,203k.
At the same time, as a result of this acquisition, the Group acquired goodwill arising from the take-over of 100% interest in UAB House Plius, recorded under assets of Artman S.A. capital group.

Revenues and financial result generated by Artman S.A. Capital Group from November to the accounting reference date are presented below:

1. Revenues from sales	71 145
2. Other operating revenues	405
3. Financial revenues	754
4. Gross profit	10 056
5. Net profit	8 182

Changes in goodwill were as follows:

		in PLN '000
Gross value	31.12.2008	31.12.2007
Opening balance	0	0
Increase	183 609	
Reduction		
Closing balance	183 609	0

Write-downs	31.12.2008	31.12.2007
Opening balance	0	0
Closing balance	0	0

Net amount	31.12.2008	31.12.2007
Opening balance	0	0
Closing balance	183 609	0

13.3 Intangible assets

As at the accounting reference date, the Group disclosed an intangible asset with indefinite useful life in the form of a trademark.

As at 31 December 2008, the carrying amount of this trademark totalled PLN 77,508 k.

Intangible assets with determined useful life are amortised on a straight line basis with the following rates:

- acquired patents, licenses and similar rights: 14.29 - 50%

Intangible assets are tested for impairment on an annual basis. No impairment of intangible assets was identified in 2008 or in the previous corresponding period.

The Group draws up its Profit and Loss Account in the function format. As a result, amortisation of intangible assets is recognised under the following items:

- selling expenses – PLN 608 k
- general administrative expenses – PLN 3,526 k.

A significant item of intangible assets is the computer software Retek, used as a sales support and goods management tool, compatible with the FK software.
As at 31 December 2008, the carrying amount of this software was PLN 5,777 k. Its expected useful life is estimated at 29 months from the balance sheet date.

As at 31 December 2008, the Group's contractual obligation related to the purchase of intangible assets totalled PLN 1,069 k.

During the reporting period, i.e. from 1 January to 31 December 2008, the Group had no R&D expenses.

The Company uses fully amortised intangible assets with the initial carrying amount of PLN 5,395 k.

Changes in intangible assets in the period from 01-01-2008 to 31-12-2008 in PLN '000

.	Development costs	Acquired patents, licenses and similar rights, of which:		Intangible assets in progress	Payments on account of intangible assets	Total
		Total	Software			
a) gross opening balance of intangible assets	443	25 086	23 610	318	322	2 6 169
- foreign exchange differences		67	493	0	0	67
- increase	-	6 160	6 128	5 522	1 219	12 901
- reduction		452	452	5 455	1 432	7 339
b) gross closing balance of intangible assets	443	30 861	29 779	385	109	31 798
c) opening balance accumulated amortisation	443	13 540	13 111			13 983
- foreign exchange differences	0	43	141			43
- planned amortisation write-offs	0	4 134	3 874			4 134
- foreign exchange differences	0	17	17			17
- reduction	0	452	452			452
d) closing balance accumulated amortisation	443	17 282	16 691			17 725
Total net closing balance of intangible assets	0	13 579	13 088	385	109	1 4 073

Changes in intangible assets in the period from 01-01-2007 to 31-12-2007 in PLN '000						
	Develop ment costs	Acquired patents, licenses and similar rights, of which:				
			Software	Intangible assets in progress	Payments on account of intangible assets	Total
		Total				
a) gross opening balance of intangible assets	443	22 882	22 210	233	103	23 661
- foreign exchange differences		-46	-81	0	0	-46
- increase	-	2 267	1 498	1 092	459	3 818
- reduction		17	17	1 007	240	1 264
b) gross closing balance of intangible assets	443	25 086	23 610	318	322	26 169
c) opening balance accumulated amortisation	320	9 863	9 515	-	-	10 183
- foreign exchange differences	0	-18	-9			-18
- planned amortisation write-offs	123	3 722	3 625	-		3 845
- foreign exchange differences	0	-9	-2			-9
- reduction	0	18	18			18
d) closing balance accumulated amortisation	443	13 540	13 111	-	-	13 983
Total net closing balance of intangible assets	0	11 546	10 499	318	322	12 186

As at the balance sheet date, the right of use of Re, Cropp, House and Mohito trademarks was subject to limitations.

13.4 Investments

The Group's investments include:

- shares held by the Parent Company in Polish non-consolidated subsidiaries, of PLN 718 k,
- loans granted to third parties: PLN 1,159 k. Loans granted are classified as financial instruments and described in Note 13.5 below.

Shares in subsidiaries are measured at cost less impairment losses. Results of analysis carried out as at the balance sheet date show that impairment write-downs of shares held by the Capital Group are not required.

13.5 Financial instruments

As at the balance sheet date, in accordance with the classification of financial assets and financial liabilities specified in IAS 39, the Company disclosed the following items in its Balance Sheet:
- loans and receivables: PLN 91,695 k
- financial liabilities carried at amortised cost: PLN 802,046 k.

In line with the above classification, all financial assets and financial liabilities are carried at amortised cost.
Trade receivables and payables are carried at the discounted value as at the balance sheet date, based on the amortised cost method and using the effective interest rate. Under the accounting policy adopted by the Company, considering that the difference in measurement is immaterial, trade receivables and payables with the maturity below 120 days are carried at amounts initially invoiced, including revaluation write-downs. The standard term of payment for customers is 60 days. Receivables and payables classified as "other" are carried at fair value as at the balance sheet date.

The Group has no financial assets used as a security of its liabilities or contingent liabilities. No security was established in respect of the Group.
As far as borrowings (credits) are concerned, no breach of the terms of payment or of terms and conditions of these agreements took place in the reporting period.

In the P&L Account under "Financial revenues", the Company presents the amount of interest of PLN 957 k, calculated using the effective interest rate, and in reference to financial assets not carried at fair value through profit and loss.
Interest calculated using the effective interest rate method and referring to financial liabilities not carried at fair value through profit and loss is presented under "Financial expenses – interest" in the amount of PLN 17,699k.

In the reporting period, no write-downs of loans granted were made, and changes in the impairment of receivables were presented in Note 13.7. The Group does not use any hedge accounting.

The total amount of loans granted by the Capital Group as at 31 December 2008 totalled PLN 1,159 k (vs. PLN 2,300 k as at 31 December 2007) and included:
- a loan granted to a business partner of the Parent Company in the amount of PLN 57 k (PLN 129 k as at 31 December 2007). Interest (8% p.a.) and instalments of the principal amount shall be repaid in equal monthly instalments. The last instalment with interest shall be repaid on 31 July 2009.
- a loan granted to a foreign business partner of Artman in the amount of PLN 37 k. Interest (7% p.a.) and instalments of the principal amount shall be repaid in equal monthly instalments. The last instalment with interest shall be repaid on 31 July 2009.
- loans granted by the Parent Company to its employees in the total amount of PLN 1,065 k (PLN 645 k as at 31 December 2007). The period of these loan agreements does not exceed 3 years. The principal amount shall be repaid in monthly instalments, while interest (7% p.a.) shall be repaid with the last instalment of the principal amount.

According to the Group, the carrying amount of financial assets and liabilities is close to their fair value. The Company used the option provided for in IFRS 7.29 and did not disclose the fair values of its financial assets and liabilities.
As an active market does not exist, the Group did not estimate the fair value of loans granted, which (given the adoption of the fixed interest rate) may be different from the carrying amount calculated based on amortised cost.

Changes in loans granted and bank deposits in the reporting and comparative period are presented below.

in PLN '000

CHANGE IN FINANCIAL	loans granted		bank fixed-term deposits	
INVESTMENTS	2008	2007	2008	2007
as at 1 January	2 300	1 855	5 225	4 156
1) increase	1 106	903	580 265	835 498
- loan granted	950	761		
- interest accrued	156	142		
- deposit established			580 265	835 498
2) reduction	2 247	458	571 831	834 431
- loans repaid	2 093	354		
- interest repaid	154	104		
- deposits closed (reversed)			571 831	834 431
as at 31 December	1 159	2 300	13 659	5 225

13.6 Inventories

Trading commodities are the key item of the Capital Group's inventories. The structure of inventories as at the balance sheet date is presented in the table below:

in PLN '000

INVENTORIES	31.12.2008	31.12.2007
1) materials	6 748	2 434
2) commodities	455 896	285 281
3) payments on account of deliveries	7 676	1 812
TOTAL	470 320	289 527

Trading commodities are used as collaterals to secure bank credits taken out by Artman S.A. in PEKAO S.A. and PKO BP S.A. The value of these commodities is PLN 26,900 k and they are used as collaterals to secure a multi-purpose credit line.

The carrying amount of inventories disclosed in the Balance Sheet includes the amount of a write-down. Changes in the amount of this write-down in the reporting period and comparative period are presented in the table below.

in PLN '000

REVALUATION WRITE-DOWN OF INVENTORIES	31.12.2008	31.12.2007
Opening balance revaluation write-down of inventories	3 620	1 895
Revaluation write-downs of inventories – increase recognised in the reporting period under expenses in the P&L Account	2 371	2 143
Revaluation write-downs of inventories – reduction recognised in the reporting period under revenues in the P&L Account	1 279	397
Foreign exchange differences	-202	-21
Closing balance revaluation write-down of inventories	4 510	3 620

Trading commodities or materials whose trading and useful value is impaired are written down by the Group. As at each balance sheet date, the inventory of trading goods is reviewed in detail to determine the estimated probable loss on their sale. Under the policy adopted by the Group, only the difference between the amounts of write-downs made as at the current and previous balance sheet date is posted. Positive difference is charged to expenses of the period, while negative difference increases other operating revenues.

As at 31 December 2008, the amount of inventories expensed in the reporting period totalled PLN 725,948 k.

13.7 Trade and other receivables

Details of the structure of the Capital Group's receivables are presented in the table below.

PLN '000

SHORT-TERM RECEIVABLES	31.12.2008	31.12.2007
1) from related parties	41	1 426
- trade payables	41	1 426
2) from other entities	89 434	59 383
- trade receivables	63 824 11	44 390
- taxes, subsidies, customs duties, social security, health insurance and other benefits	118	9 071 5
- other	14 492	922
TOTAL	89 475	60 809

Trade receivables include mainly receivables related to the sale of clothing.
In the normal course of sales, receivables are settled within three months from the date of sale.
The total amount of short-term receivables presented above is a net amount, i.e. includes a revaluation write-down of PLN 11,605 k.

Changes in the amount of revaluation write-downs of receivables in the reporting period and the comparative period are presented in the table below:

in PLN ‘000.

REVALUATION WRITE-DOWN OF RECEIVABLES	31.12.2008	31.12.2007
Opening balance revaluation write-down of receivables	5 106	4 859
Revaluation write-downs of receivables – increase recognised in the reporting period	8 289	2 204
Revaluation write-downs of receivables – reduction recognised in the reporting period	1 895	1 945
Foreign exchange differences	105	-12
Closing balance revaluation write-down of receivables	11 605	5 106

13.8 Cash

in PLN ‘000

CASH	31.12.2008	31.12.2007
1) cash in hand and cash in banks	76 172	48 207
2) other cash	13 659	5 225
TOTAL	89 831	53 432

“Other cash” includes short-term deposits. These deposits are established for a fixed term (from one day up to one month, depending on the current needs) and bear interest based on defined interest rates.

The currency structure of cash is presented in the table below.

in PLN ‘000

CASH – CURRENCY STRUCTURE	31.12.2008	31.12.2007
in the Polish currency	32 579	17 943
in foreign currencies (by currency)	57 252	35 489
- USD	1 280	2 741
- RMB	195	34
- EUR	1 336	236
- LVL	133	344
- EEK	13 190	26 320
- CZK	50 678	25 929
- UAH	2 319	1 713
- LTL	2 081	3 540
- HUF	134 002	153 191
- RUB	224 392	82 703
- BGN	130	
- SKK	7 162	
- RON	3 956	1 481
TOTAL (in PLN ‘000)	89 831	53 432

As at 31 December 2008, the Group had free borrowings of PLN 117,557 k.

In the period from 1 January to 31 December 2008, the Group made non-cash settlements with its business partners (in the form of set-off of payables and receivables) for the total amount of PLN 5,390 k.

13.9 Equity

Share capital

The Group's share capital is equal to share capital of the Parent Company.

As at 31 December 2008, share capital totalled PLN 3,492k. It was divided into 1,746,067 shares of the nominal value PLN 2.00 per share.

In the reporting period ended on 31 December 2008, increase of the Company's share capital was registered twice.

Share capital was increased by PLN 5,134 in connection with an issue of series I shares (2,567 series I shares of nominal value PLN 2.00 per share). Series I shares were issued within the Company's authorised capital to implement an incentive and performance scheme. Share capital was subsequently increased by PLN 80,000 in connection with an issue of series J shares (40,000 series J shares of nominal value PLN 2.00 per share). Series J shares were offered in private subscription to the three main shareholders and founders of Artman S.A. – the entity taken over by the Parent Company.

Before this double increase, the Company' share capital totalled PLN 3,407,000, including 1,703,500 shares carrying 3,103,500 votes at the AGM.

In the reporting period, the Issuer started to buy back shares of LPP S.A. in connection with the Management Board's plans to develop LPP S.A. Capital Group based on acquisitions of other entities. Treasury shares bought back by the Company shall be taken over by shareholders of other entities which will be merged with LPP S.A. through acquisitions.

From the date of this decision to 31 December 2008, the Company bought back 21,398 treasury shares, representing 1.23% of its share capital and carrying 21,398 of votes at the Company's AGM, i.e. 0.68% of the total vote. The total value of these shares is PLN 48,746 k.

The total number of shares broken down into subsequent share issues is presented in the table below.

Series / issue	Type of shares	Preference	Type of limitation of rights to shares	Number of shares	Value of the issue
A	bearer	common (ordinary)	none	100	200
B	registered	preference	none	350 000	700 000
C	bearer	common (ordinary)	none	400 000	800 000
D	bearer	common (ordinary)	none	350 000	700 000
E	bearer	common (ordinary)	none	56 700	113 400
F	bearer	common (ordinary)	none	56 700	113 400
G	bearer	common (ordinary)	none	300 000	600 000
H	bearer	common (ordinary)	none	190 000	380 000
I	bearer	common (ordinary)	none	2 567	5 134
J	bearer	common (ordinary)	none	40 000	80 000
TOTAL NUMBER OF SHARES				1 746 067	

All issued shares are paid up in full.

In the reporting period, LPP S.A. paid no dividend to its shareholders. 350,000 registered shares held by Marek Piechocki and Jerzy Lubianiec are preference shares in terms of their voting rights at the General Meeting of Shareholders. Each registered share carries 5 votes.

The ownership structure of share capital of LPP S.A. as at 31 December 2008 was as follows:

Shareholder	Number of shares held	Number of votes at the General Meeting of Shareholders	Share in the total vote at the General Meeting of Shareholders	Share in share capital	Nominal value of shares
Marek Piechocki	324 390	1 024 390	32.56%	18.58%	648 780
Jerzy Lubianiec	226 338	926 338	29.44%	12.96%	452 676
Grangefont Limited, headquartered in London, UK	350 000	350 000	11.13%	20.05%	700 000
Other shareholders	845 339	845 339	26.87%	48.41%	1 690 678
TOTAL	1 746 067	3 146 067	100.00%	100.00%	3 492 134

In the reporting period, LPP S.A. paid no dividend to its shareholders.

Reserve capital
The Capital Group's reserve capital was established based on:
- net profit (to be used to offset any loss),
- share premium (shares sold above their nominal value),
- measurement of share-based payments.

A portion of the Group's reserve capital created from the Parent Company's financial result was established on a statutory basis pursuant to Art. 396 of the Code of Commercial Companies and may be used in the future only to offset losses disclosed in the financial statements.

The structure of reserve capital is as follows:

PLN '000

TYPE OF RESERVE CAPITAL	31 December 2008	31 December 2007
created on a statutory basis based on the write-off from financial result	1 251	1 249
created under the Articles of Association based on the write-off from financial result	319 557	201 247
created from share issue premium	108 122	71 202
created from share-based payments	7 404	1 050
TOTAL	436 334	274 748

Equity of the Parent Company in the hyperinflationary period

Conversion of equity from the hyperinflationary period was based on the following data:
1. 18.12.1989– establishment of the Company and contribution of the initial capital of PLN 200.00 (after denomination)
2. 04.05.1995– acquisition of the Company by Mr Marek Piechocki and Mr Jerzy Lubianiec
3. 12.04.1995– registration of the increase of share capital up to PLN 700 k
4. 24.10.1995– adoption of a resolution to increase the Company's share capital to PLN 1,500 k

5. 04.01.1996– adoption of a resolution to increase the Company's share capital to PLN 2.200 k

PLN '000

Years	Opening balance equity	Increase	Inflation	Days	Inflation rate	Equity after conversion
1990	0.2		585.8%	365	6.858	1.4
1991	1.4		70.3%	365	1.703	2.3
1992	2.3		43.0%	365	1.430	3.3
1993	3.3		35.3%	365	1.353	4.5
1994	4.5		32.2%	365	1.322	5.9
1995-01-01	5.9		27.8%	365	1.278	7.6
1995-04-12		700	27.8%	263	1.200	840
1995-10-24		800	27.8%	68	1.052	841
TOTAL 1995						1 689
1996-01-01	1 916 1)		19.9%	365	1.199	2 298
1996-01-04		1 400 2)	19.9%	362	1.197	1 676
TOTAL 1996						3 974

1) equity as at the end of 1995 + retained result for 1995
2) equity increase + share premium

As at 31 December 1996 (excluding profit for the fiscal year) the Company's equity amounted to PLN 3,127 k. The difference resulting from equity revaluation was PLN 847 k.

13.10 Grants

In 2008, the Group used the following Government grants:

- grant to salaries and insurance premiums of the disabled employees from the State Fund for Rehabilitation of the Disabled;
- grant to the staff training programme from the European Union.

13.11 Provisions

As at the balance sheet date, the Group recognised the total of PLN 24,015 k in provisions under liabilities in the Balance Sheet.
This amount includes:

- deferred tax provision (cf. section 13.19)
- provision for pensions and other post-retirement benefits
- provision for holiday leaves not taken
- provision for services.

Provision for retirement benefits
This provision is created only by the Parent Company. In other Capital Group companies, retirement severance payments are not paid. LPP S.A. estimates the amount of this provision individually, based on actuarial methods.

Provision for holiday leaves not taken
The Group also creates a provision for holiday leaves not taken, i.e. for the future payments of amounts payable to employees for their on-going services.

Provision for unpaid salaries
This provision is created only by the Parent Company for future consideration paid to employees under the incentive scheme.

Provision for liabilities
Provisions are also made for future liabilities whose repayment is certain or most probable.

	Provision for pensions and other post-retirement benefits	Provision for unpaid salaries	Provision for liabilities	Provision for holiday leaves not taken
As at 1 January 2008	563	6 993	636	1 363
- provision established	311	5 070	87	3 083
- provision reversed	0	6 993	636	1 457
- foreign exchange differences				151
As at 31 December 2008	874	5 070	87	3 140

13.12 Contingent liabilities

In 2008, the Capital Group companies used bank guarantees to secure payment of rent for the leased retail premises where brand stores are located.

As at 31 December 2008, the total value of all bank guarantees granted at the request and on the responsibility of LPP S.A. amounted to approx. PLN 97,136 k, of which:

a) guarantees granted to secure agreements concluded by LPP S.A. – PLN 13,949k
b) guarantees granted to secure agreements concluded by consolidated related parties – PLN 62,797k
c) guarantees granted to secure agreements concluded by non-consolidated related parties – PLN 20,390k

As at 31 December 2008, the total amount of all sureties issued by the Parent Company was PLN 11,392 k, up by PLN 2,552 k vs. 31 December 2007.

According to the Management Board of LPP S.A., any outflow of funds disclosed under off-balance sheet/contingent liabilities is unlikely. The majority of these liabilities are related to guarantees securing the payment of rent by the Capital Group companies, and, to a smaller extent, securing the repayment of credits granted by banks to customers of LPP S.A. for the purchase of the Company's goods.

13.13 Future liabilities arising from retail lease agreements

The Group is party to lease agreements concerning the use of retail premises where Reserved, Cropp, Esotiq, House, and Mohito brand stores are located.

The total future minimum payments arising from lease agreements, estimated as at 31 December 2008, are as follows:
- payables with the maturity date within 12 months from the balance sheet date PLN 220,555k
- payables with the maturity date from 12 months to 5 years from the balance sheet date PLN 637,414k
- payables with the maturity date over 5 years from the balance sheet date PLN 172,722k

Under expenses of the reporting period from 1 January to 31 December 2008, the amount of PLN 157,317 k was disclosed; this amount resulted from the minimum and contingent payments of rent for the lease of retail premises.

The amount of contingent rent is immaterial and was not presented separately.
Provisions of fixed-term lease agreements from which these payments arise are typical for this type of contracts. Apart from the minimum rent, these agreements usually provide for the additional contingent rent if a specified level of revenues is generated in the store. Contingent rent is calculated as a percentage of these revenues. In the reporting period, the amount of contingent rent was immaterial, as it represented only about 8.5% of the total amount of rent. In addition, retail lease agreements contain adjustment clauses, linking the amount of rent to statistical price indices. Some agreements also contain clauses for a possible renewal of the contract for another period, at the option of the lessee. As these retail lease agreements refer to premises located mainly in large shopping malls, they do not provide for the purchase of premises.

13.14 Bank credits

As at 31 December 2008, the Company's payables related to bank credits were as follows:

Bank	Utilisation of credits as at 31 December 2008		Credit costs	Maturity date
	in PLN '000	Currency in '000		
PKO BP S.A.	48 996		WIBOR 1 m + bank's margin	23-06-2011
PKO BP S.A.	92 932		WIBOR 1 m + bank's margin	04-11-2017
PKO BP S.A.	269 349		WIBOR 1 m + bank's margin	13-06-2013
PKO BP S.A.	6 828		WIBOR 1 m + bank's margin	26-03-2011
PKO BP S.A.	1 943		WIBOR 1 m + bank's margin	15-03-2022
PEKAO S.A.*	20 779	USD 534	LIBOR, WIBOR 1 m + bank's margin	31-07-2009
PEKAO S.A.	5 874		WIBOR 1 m + bank's margin	27-03-2009
Fortis Bank Polska S.A.*	55 671	EUR 1	EURIBOR, WIBOR 1 m + bank's margin	25-11-2009
Raiffeisen Bank Polska S.A.	11 000		WIBOR 1 m + bank's margin	31-05-2010
Raiffeisen Bank Polska S.A.	32 574	USD 7,889	LIBOR, WIBOR 1 m + bank's margin	31-05-2010
Unicredit Tiriac Bank S.A.	397	RON 382	EURIBOR 1 m + bank's margin	18-12-2009
HSBC Bank Polska S.A.	1 422	USD 500	LIBOR 1 m + bank's margin	26-03-2009

Bank credits amounted to PLN 553,063 k, of which:
- long-term credits – PLN 306,097 k
- short-term credits – PLN 246,966 k.

As at the balance sheet date, the outstanding long-term bank credits of PLN 11,000k, 84,024k, 209,276k, and 1,797k were taken out in Raiffeisen Bank Polska S.A. (the first) and PKO BP S.A. (the remaining three). Credits incurred in PKO BP S.A. are investment facilities to be used to finance the construction of a warehouse and distribution centre in Pruszcz Gdański, acquisition of Artman S.A., and purchase of a building in Kraków.

As a comparison, as at 31 December 2007, the Group's payables related to bank credits were as follows:

	Utilisation of credits as at 31 December 2007			
Bank	PLN '000	Currency in '000	Credit cost	Maturity date
PKO BP S.A.	33 079		WIBOR 1 m + bank's margin	23-06-2008
PKO BP S.A.	16 865		WIBOR 1 m + bank's margin	04-11-2017
Fortis Bank Polska S.A.	15 061		WIBOR 1 m + bank's margin	28-10-2008
Raiffeisen Bank Polska S.A.	11 000		WIBOR 1 m + bank's margin	29-05-2009
ZAO Raiffeisenbank Austria	4 674	RUB 46 971	RBRU's overdraft rate + bank's margin	31-07-2008
Bayerische Hypo und Vereinsbank AG	15	EUR 500	EURIBOR 1 m + bank's margin	31-12-2007
Unicredit Prague	4 188	CZK 31 071	PRIBOR 1 m + bank's margin	30-11-2008
TOTAL	84 882			

Bank credits amounted to PLN 84,882 k, of which:
- long-term credits – PLN 27,865 k
- short-term credits – PLN 57,017 k.

Detailed data on bank credits as at the balance sheet date is as follows:

Bank	Type of credit/line	Credit amount and currency		Security
		amount in '000	foreign currency	
PKO BP S.A.	multi-purpose multi currency credit line	100 000	PLN	2 blank promissory notes
PKO BP S.A.	investment facility	100 000	PLN	mortgage and capped mortgage, assignment of receivables from an insurance policy, blank promissory note
PKO BP S.A.	investment facility	394 800	PLN	mortgage and capped mortgage, assignment of receivables from an insurance policy, blank promissory note, registered pledge on Re, Cropp, and House trademarks, pledge on Artman shares
PKO BP S.A.	investment facility	2 200	PLN	mortgage on real properties: mortgage up to PLN 2,200k, capped mortgage up to PLN 1,100k, blank promissory note
PKO BP S.A.	multi-purpose multi currency credit line	25 000	PLN	registered pledge on inventories up to PLN 16,900k, registered pledge on House and Mohito trademarks of PLN 12,090k, authorisation to debit the bank account, blank promissory note
PEKAO S.A.	multi-purpose multi currency credit line	30 000	PLN	registered pledge on inventories up to PLN 10,000k, mortgage on real property up to PLN 22,500k, authorisation to debit the bank account, blank promissory note
PEKAO S.A.	multi-purpose multi currency credit line	100 000	PLN	blank promissory note
Fortis Bank Polska S.A.	multi currency credit line	100 000	PLN	blank promissory note
Raiffeisen Bank Polska S.A.	multi-purpose multi currency credit line	130 000	PLN	blank promissory note
HSBC Bank Polska S.A.	credit line	500	USD	capped mortgage on real properties up to USD 7,500k, assignment of rights from the insurance policy of goods in transit, bills of lading

				issued at the Bank's requests, transfer of the title to goods financed with a letter of credit
Unicredit Slovakia	credit line	575	EUR	PEKAO S.A. guarantee
Unicredit Tiriac Bank S.A.	credit line	3 000	EUR	PEKAO S.A. guarantee
Unicredit Prague	credit line	67 800	CZK	PEKAO S.A. guarantee

13.15 Trade and other payables

		PLN '000
SHORT-TERM PAYABLES	31.12.2008	31.12.2007
1) in respect of subsidiaries	3 384	3 085
- trade payables	3 384	3 085
2) in respect of other entities	244 808	163 607
- trade payables	186 464	143 232
- taxes, customs duties, insurance and other benefits	52 833	17 515
- salaries	4 371	2 364
- other	1 140	496
TOTAL	248 192	166 692

13.16 Prepaid expenses

Prepaid expenses as at 31 December 2008 totalled PLN 5,688 k, and were broken down into:

		in PLN '000
PREPAID EXPENSES	31.12.2008	31.12.2007
Prepaid rent for the lease of retail premises, to be settled within 12 months from the balance sheet date	3 214	1 204
Costs of customs guarantees and insurance	875	614
Supervision of software	452	310
Commissions on bank credits	0	77
Future business travel	0	221
Other	1 147	809
TOTAL	5 688	3 235

13.17 Revenues

REVENUES	01.01.08-31.12.08	01.01.07-31.12.07
		PLN '000
1) net revenues from sales of services	9 267	7 878
2) net revenues from sales of goods and materials	1 613 732	1 266 454
TOTAL	1 622 999	1 274 332

The Group's revenues from sales of services are generated by the Parent Company only. Services provided by the Parent Company include:

- sale of know-how related to the management of brand stores by Polish contractors,
- rental of own transport vehicles.

PLN '000

OTHER OPERATING REVENUES	01.01.08-31.12.08	01.01.07-31.12.07
1. Profit from sale of non-financial fixed assets	259	135
2. Grants	0	22
3. Other operating revenues	8 388	5 335
TOTAL	8 647	5 492

PLN '000

FINANCIAL REVENUES	01.01.08-31.12.08	01.01.07-31.12.07
1. Dividends	1 239	922
2. Interest	983	587
3. Other, of which:		23
- balance of foreign exchange differences	16 154 15	0
	876	
TOTAL	18 376	1 532

13.18 Expenses

PLN '000

EXPENSES BY TYPE	01.01.08-31.12.08	01.01.07-31.12.07
1) depreciation and amortisation	66 360	49 744
2) consumption of materials and energy	52 287	39 291
3) outsourced services	407 573	317 120
4) taxes and fees	11 534	3 505
5) salaries	118 327	88 312
6) social security and other benefits, of which:	26 124	19 997
- pension contribution	5 546	4 631
7) other expenses (by type)	47 920	49 692
TOTAL	730 125	567 661

Change in products Selling expenses and general administrative expenses presented in the P&L Account	- 560 730 685	-184 567 477 PLN '000
OTHER OPERATING EXPENSES	01.01.08-31.12.08	01.01.07-31.12.07
1) Loss from sale of non-financial fixed assets	0	2
2) Revaluation of non-financial assets	14 014	4 896
3) Other	14 204	10 812
TOTAL	28 218	15 710
		PLN '000
FINANCIAL EXPENSES	01.01.08-31.12.08	01.01.07-31.12.07
1) Interest	18 109	5 920
- other, of which:	1 816	5 055
- commission on bank credits and guarantees	1 816	861
- balance of foreign exchange differences	0	4 137
TOTAL	19 925	10 975

<u>13.19 Income tax</u>

The main elements of the Group's taxation for 2008 and the comparative period are as follows:

		in PLN '000
Profit and Loss Account	2008	2007
Current income tax	42 800	34 297
Deferred income tax	2 918	-3 214
TOTAL	45 718	31 083

Reconciliation of income tax disclosed in the consolidated Profit and Loss Account for 2008 and 2007 is presented in the table below.

		PLN '000
INCOME TAX	2008	2007
Group's gross profit/loss before consolidation adjustments	158 429	170 143
Adjustment of non-taxable revenues and costs	47 640	3 880
Group's gross profit/loss after consolidation adjustments	206 069	174 023
Income tax at the average tax rate of 19.06% and 18.53%	38 193	33 337
Tax consolidation adjustments	8 131	-1793
Tax reliefs	-606	-461
Income tax disclosed in the P&L Account	45 718	31 083

Income tax is calculated at the following tax rates:
- LPP S.A. - 19 %,
- Artman S.A. - 19%,
- ZAO Re Trading (Russia) - 24%,
- Es Style (Russia) - 24%,
- Fashion Point (Russia) - 24%,
- LPP Retail Estonia - 21%,
- UAB „LPP" (Lithuania) - 15%,
- LPP Retail Latvia (Latvia) - 15%,
- LPP Hungary - 16%,
- LPP Ukraina AT - 25%.

The amount of deferred income tax assets and provision disclosed in the Balance Sheet results from the items and amounts presented in the following tables.

PLN '000		
DEFERRED INCOME TAX ASSETS	31.12.2008	31.12.2007
surplus of balance sheet depreciation of PP&E over tax-based depreciation	5 243	2 938
foreign exchange differences – payables	184	3 433
revaluation of trade receivables	1 380	212
revaluation of PP&E	242	242
profit margin on goods not sold outside the Group	2 897	2 196
revaluation of inventory	571	428
tax loss	6 601	1 187
other temporary differences	2 739	2 384
TOTAL	19 857	13 020
		PLN '000
PROVISION FOR DEFERRED INCOME TAX	31.12.2008	31.12.2007
accelerated tax-based depreciation (capital cost allowance)	6 684	4 630
outstanding interest on loans granted	14	5
damages not received	63	232
foreign exchange differences – receivables	7 673	0
other	410	63
TOTAL	14 844	4 930

Deferred income tax assets will be realised provided that the Group generates positive financial result in the future periods.

Deferred income tax recognised in the P&L Account for 2008 and 2007 results from the following items:

		PLN '000
DEFERRED INCOME TAX ASSETS	2008	2007
surplus of balance sheet depreciation of PP&E over tax-based depreciation	2 396	658
foreign exchange differences – payables	-3 249	1 752
revaluation of trade receivables	899	-233
profit margin on goods not sold outside the Group	701	282
revaluation of PP&E	0	7
revaluation of inventory	99	120
tax loss	5 415	661
other temporary differences	-864	560
foreign exchange differences	-101	128
TOTAL	5 296	3 935

		PLN '000
PROVISION FOR DEFERRED INCOME TAX	2008	2007
accelerated tax-based depreciation (capital cost allowance)	385	780
outstanding interest on loans granted	9	5
damages not received	178	148
foreign exchange differences – receivables	7 673	
other	-24	-175
foreign exchange differences	-7	-37
TOTAL	8 214	721

If a decision is made to pay out dividends to shareholders, income tax shall be deducted.
In the case of Polish shareholders, 19% tax will be deducted; in the case of foreign shareholders, the income tax deduction will depend on the terms and conditions of the applicable double taxation agreement.

13.20. Related-party transactions

The Group's related parties include:

- foreign and Polish entities controlled by the Capital Group companies based on direct ownership of shares,
- members of key management personnel of LPP Capital Group and their close family members,
- entities controlled by or significantly influenced by members of key management personnel of LPP Capital Group and their close family members, as per IAS 24.

13.20.1 Key management personnel

The Capital Group's key management personnel include members of the Management and Supervisory Board of the Parent Company.

The amount of short-term employee benefits received by key management personnel for the period between 1 January and 31 December 2008 was PLN 1,982 k. Compensation of each member of key management personnel was as follows:
Marek Piechocki - President of the Management Board – PLN 528k,
Alicja Milińska - Vice-President of the Management Board – PLN 352 k,
Dariusz Pachla - Vice-President of the Management Board – PLN 352 k,
Stanisław Dreliszak - Vice-President of the Management Board – PLN 352 k,
Aleksander Moroz - Vice-President of the Management Board – PLN 352 k,
Jerzy Lubianiec - Chairman of the Supervisory Board – PLN 6 k (and PLN 12 k for services other than membership in the Supervisory Board),
Wojciech Olejniczak - Member of the Supervisory Board – PLN 4k,
Other members of the Supervisory Board – PLN 6k each.

Members of the key management personnel are involved in the management of related parties, but receive no compensation or bonuses for these services.

In addition, under a resolution of the Supervisory Board, Management Board members are entitled to additional remuneration (exchangeable into shares under the incentive scheme), depending on the amount of net profit generated by LPP S.A. Capital Group in the financial year. In 2008, the minimum net profit was PLN 175m. As profit generated by LPP CG was lower, Management Board members shall receive no remuneration.

Under the incentive scheme based on shares issued within authorised capital, the Management Board members resigned from a cash bonus for 2007; instead, all Management Board members took over shares (Marek Piechocki – 405 shares, other Management Board members – 270 shares each).

13.20.2 Related party transactions

				PLN '000
No. RELATED PARTIES	payables as at 31.12.2008	receivables as at 31.12.2008	revenues in 2008	expenses in 2008
1. Polish subsidiaries – total	3 384	41	99	62 639
TOTAL	3 384	41	99	62 639

				PLN '000
No. RELATED PARTIES	payables as at 31.12.2007	receivables as at 31.12.2007	revenues in 2007	expenses in 2007
1. Polish subsidiaries – total	3 085	1 426	97	54 257
TOTAL	3 085	1 426	97	54 257

Amounts given in the table show only intercompany transactions between LPP S.A. and 19 Polish non-consolidated subsidiaries and are presented from the point of view of the Parent Company.
Data presented as payables of LPP S.A. is equal to receivables in related parties, and expenses are equivalent to revenues of related parties.
All related-party transactions were concluded at arm's length. Revenues from Polish companies are generated from the rental of offices where these companies run their businesses.

Expenses related to the Polish subsidiaries are connected with the lease of premises for Cropp Town and Reserved brand stores.

Payment terms adopted for subsidiaries are between 45 and 120 days.

13.21 Segment reporting

Financial results and other information on geographical segments for the period from 1 January 2008 to 31 December 2008, as well as for the comparative period, are presented in the following tables.

FY 2008					in PLN '000.
	EU Member States	Other countries	Consolidation adjustments	Amounts not allocated to segments	Total
External sales	1 442 386	180 613			1 622 999
Intersegment sales	87 557		-87 557		-
Other operating revenues	8 153	235		259	8 647
Total revenues	**1 538 096**	**180 848**	**-40 578**	**259**	**1 631 646**
Total operating expenses	1 213 378	168 369	-86 341	93 248	1 388 654
of which					
Costs of intersegment sales	65 109		-65 109		-
Other operating expenses	22 452	5 766			28 218
Segment result	**302 266**	**6 713**	**-1 216**	**-92 989**	**214 774**
Financial revenues				18 376	18 376
Financial expenses				19 925	19 925
Profit before tax					**213 225**
Income tax					45 718
Net profit					**167 507**

Segment assets	1 410 611	137 972	-143 389		1 405 194
Assets of the entire Group not allocated to segments				21 014	21 014
Consolidated total assets					**1 426 208**
Segment liabilities	288 405	160 138	-155 476		293 067
Liabilities of the entire Group not allocated to segments				567 906	567 906
Total consolidated liabilities					**860 973**

Other disclosures	EU Member States	Other countries
Segment investment outlays	204 517	34 356
Segment depreciation and amortisation	54 889	11 471
Impairment losses	9 240	4 774
Reversal of impairment losses	3 013	-
Other non-monetary expenses	13 212	992

FY 2007					in PLN '000.
	EU Member States	Other countries	Consolidation adjustments	Amounts not allocated to segments	Total
External sales	1 147 671	126 661			1 274 332
Intersegment sales	59 713		-59 713		-
Other operating revenues	5 166	191		135	5 492
Total revenues	**1 212 550**	**126 852**	**-59 713**	**135**	**1 279 824**
Total operating expenses,	960 639	116 375	-58 042		1 018 972
of which:					
Costs of intersegment sales	44 407		-44 407		-
Other operating expenses	14 038	1 670		69 869	85 577
Segment result	**237 873**	**-8 807**	**-1 671**	**-69 734**	**175 275**
Financial revenues				1 532	1 532
Financial expenses				10 975	10 975
Profit before tax					**165 832**
Income tax					31 083
Net profit					**134 749**

Segment assets	656 878	102 102	-77 146		681 834
Assets of the entire Group not allocated to segments				15 321	15 321
Consolidated total assets					**697 155**
Segment liabilities	191 437	100 593	-90 348		201 682
Liabilities of the entire Group not allocated to segments				89 812	89 812
Total consolidated liabilities					**291 494**

Other disclosures	EU Member States	Other countries
Segment investment outlays	95 619	20 765
Segment depreciation and amortisation	9 995	7 832
Impairment losses	4 896	-
Reversal of impairment losses	3 520	0

* Impairment write-downs of segment assets disclosed in the P&L Account include:

- write-downs of receivables,
- write-downs of inventories,
- write-downs of PP&E.

Write-downs and their subsequent reversals were made when overdue receivables and uncollectible receivables were identified or subsequently ceased to exist.

Marek Piechocki

President of the Management Board

Alicja Milińska Vice President of the Management Board	*Stanisław Dreliszak Vice President of the Management Board*	*Dariusz Pachla Vice President of the Management Board*	*Aleksander Moroz Vice President of the Management Board*

Gdańsk, 16 April 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS OF LPP S.A. CAPITAL GROUP OPERATIONS IN FY 2008

1. Basic products, goods or services with qualitative and quantitative description and share of individual products, goods or services (if material) or their groups in the total volume of the Capital Group's sales, and information on any changes thereof during the fiscal year

LPP S.A. Capital Group is composed of 20 Polish companies and 15 foreign companies.
The financial statements of LPP S.A. Capital Group covering the period between 1 January and 31 December 2008 include individual results of LPP S.A. for the said period and results of consolidated companies listed below (covered by the consolidated financial statements drawn up as at 31 December 2008):

1. LPP Retail Estonia OU;
2. LPP Czech Republic s.r.o.;
3. LPP Hungary Kft;
4. LPP Retail Latvia Ltd;
5. UAB LPP;
6. LPP Ukraina AT;
7. ZAO "Re Trading"
8. LPP Fashion Distribuitor SLR
9. ES Style
10. Fashion Point
11. LPP Retail Bulgaria Ltd.
12. Artman S.A. (Artman S.A. CG)
13. Artman Slovakia s.r.o. (Artman S.A. CG)
14. Artman Mode s.r.o (Artman S.A. CG)
15. UAB Artman Ltd (Artman S.A. CG)
16. UAB House Pilus (Artman S.A. CG)

LPP S.A., as the Parent Company, is involved in the design and distribution of clothing in Poland and in Central and Eastern Europe. The consolidated Capital Group companies are involved in the distribution of goods under the Reserved and Cropp brands outside of Poland. In addition, Artman S.A. Capital Group has been consolidated since November 2008. Just like LPP S.A., Artman S.A. is involved in the design and distribution of clothing under two proprietary brands: House and Mohito. This clothing is sold in sales networks in Poland and several countries of the CEE region.
Clothing is the core product sold by LPP Capital Group companies. Designs of clothing are prepared in the design office located at the registered office of LPP S.A. in Gdańsk, and then sent to the purchasing department, whose task is to outsource the production of individual products to manufacturing plants in Poland and abroad. Production in China is managed by the Company's trading office in Shanghai. Products sold by the Capital Group companies are classified mainly as clothing for teenagers, and include jackets, overcoats, sweaters, sweatshirts, trousers, dresses, tops, shirts, and underwear, as well as accessories such as hats, scarves, gloves, etc. Small quantities of clothes and footwear of other brands offered in the Cropp Town network are purchased in Poland from their distributors.
The Capital Group also generates revenues from sale of services.

Source of revenues	2008		2007	
	PLN '000	share in sales volume %	PLN '000	share in sales volume %
Sales of trading commodities	1 613 732	99.43%	1 266 454	99.38%
Sales of services	9 267	0.57%	7 878	0.62%
TOTAL	1 622 999	100.00%	1 274 332	100.00%

The main channels of distribution ensuring the development of the Capital Group are networks of Reserved, Cropp and House brand stores selling products to individual customers.

	2008		2007	
Distribution channel	PLN '000	share in sales volume %	PLN '000	share in sales volume %
Reserved brand stores	1 089 100	67.10%	921 300	72.30%
Exports	43 624	2.69%	32 058	2.52%
Cropp brand stores	335 300	20.66%	251 300	19.72%
Other*	154 975	9.55%	69 674	5.47%
TOTAL	**1 622 999**	**100.00%**	**1 274 332**	**100.00%**

*including sales in House and Mohito retail sales networks in the period of consolidation, i.e. November and December 2008.

2. Information on markets (Polish and foreign) and sources of supply of production materials, goods and services, indicating dependence on one or several customers and suppliers; customers or suppliers with at least 10% share in total revenues from sales – their name, share in sales or supply volumes, and formal relations with the Issuer's Capital Group

Revenues from sales of products, goods and materials disclosed in the consolidated statements were generated by individual Capital Group companies in the following amounts (intercompany sales excluded):

in PLN '000

Name of the company	country	revenues from sales from 1 January 2008 to 31 December 2008	revenues from sales from 1 January 2007 to 31 December 2007
LPP S.A.	Poland	1 147 260	955 280
LPP Retail Estonia OU	Estonia	33 189	35 798
LPP Retail Latvia Ltd	Latvia	29 683	33 687
LPP Retail Czech Republic s.r.o.	Czech Rep.	90 470	68 423
LPP Hungary Kft.	Hungary	20 140	18 798
UAB"LPP"	Lithuania	38 768	35 685
LPP Ukraina AT	Ukraine	26 430	18 400
ZAO "Re Trading"*	Russia	155 329	108 261
LPP Fashion Distributor SRL	Romania	10 585	0
Artman Capital Group**	Poland	71 145	0
Total:		**1 622 999**	**1 274 332**

*total revenues recorded by three Russian subsidiaries: ZAO RE Trading, Es Style Rosja, Fashion Point Rosja

** total revenues recorded by Artman S.A Capital Group for November and December

Export sales to entities other than Capital Group companies were recorded by LPP S.A. (PLN 43,623k, i.e. 2.69% of total revenues), and by Artman S.A. (PLN 2,212k in the period of consolidation, i.e. 0.14% of total revenues). Presented below are the main directions of export sales of the Capital Group.

country	2008		2007	
	exports value in PLN '000	share in exports %	exports value in PLN '000	share in exports %
Slovakia	28 859	62.96%	20 762	64.76%
Russia	9 053	19.75%	6 045	18.86%
Ukraine	4 070	8.88%	2 226	6.94%
Lithuania	378	0.82%	400	1.25%
Czech Republic	498	1.09%	595	1.86%
Latvia	350	0.76%	275	0.86%
Other	2 628	5.73%	1 756	5.48%
TOTAL	**45 836**	100.00%	**32 059**	100.00%

Dependence of the Issuer's Capital Group on customers

The Capital Group companies are not dependent on any customer. None of the customers had a share in the Group's total sales volume exceeding 10%.

Dependence of the Issuer's Capital Group on suppliers

Foreign companies of LPP Capital Group receive supplies of trading goods from LPP S.A. and Artman S.A.

Production companies – subcontractors of LPP S.A. are based mainly in China. Purchases made in China represented 74% of the total purchase volume. Additionally, the Company purchased goods from Polish producers (8%). The remaining volume of sales was split between other European countries (2%) and other Asian countries (16%). Purchasing volumes did not exceed 10% of sales for any of the suppliers.

The Company concluded framework agreements determining the general terms and conditions of co-operation. Individual products are manufactured for the Company based on specific contracts, concluded separately for each individual delivery.

3. Basic economic and financial figures disclosed in the annual consolidated financial statements, including in particular factors and events, including extraordinary events, with significant impact on the Capital Group's business and its gains or losses recorded during the fiscal year

Key achievements of LPP S.A. Capital Group in 2008:

1) Revenues from sales of LPP Capital Group amounted to PLN 1,623m and were up by 27.36% vs. the previous year.

2) In 2008, LPP S.A. Capital Group generated net profit of approx. PLN 168 m, up by about 24.31% vs. 2007 (approx PLN 135 m).

3) In 2008, the total selling area of brand stores was up by about 43.8 thousand square meters (i.e. approx. 31%), and if we consider Artman S.A. Capital Group – up by about 81.7 thousand square meters (i.e. approx. 57%). Total retail selling area of the entire Capital Group LPP S.A. amounted to 224.2 thousand square metres (186.3 k square meters without Artman S.A. CG), of which approx. 79.8 thousand square metres abroad (75.6 k square meters without foreign subsidiaries of Artman S.A.).

Results generated by LPP S.A. Capital Group in 2008 depended to a large extent on the performance of two retail sales networks (Reserved and Cropp), with the major part of revenues and gains generated by Reserved stores.

Presented below are basic economic and financial figures, as well as their changes vs. the previous year.

	2008	2007	change
item	in PLN '000	in PLN '000	%
net revenues from sales	1 622 999	1 274 332	27.36%
profit on sales before tax	965 030	752 970	28.16%
profit on sales	234 345	185 493	26.34%
operating profit	214 774	175 276	22.53%
profit on ordinary operations	213 225	165 832	28.58%
net profit	167 507	134 749	24.31%
equity	565 235	405 662	39.34%
payables	860 973	289 645	197.25%
long-term payables	322 316	33 358	866.23%
short-term payables:	534 792	256 287	108.67%
- bank credits	246 966	57 017	333.14%
- in respect of suppliers	248 192	166 692	48.89%
fixed assets	770 448	288 043	167.48%
current assets	655 760	409 112	60.29%
inventories	470 320	289 527	62.44%
short-term receivables	89 475	60 809	47.14%

Please note that all the above carrying amounts and ratios presented below include the complete data of Artman S.A. Capital Group, and the amounts relating to sales and profits include results of Artman S.A. CG only for the two months of consolidation.

Increase in revenues from sales by 27.36% was achieved mainly based on the development of the Reserved and Cropp Town network (increasing the total selling area in Poland and abroad by approx. 31% - without Artman S.A. CG), as well as the increase in the efficiency of sales per one square meter of the selling area. Gross profit margin reached 59.46%, i.e. up by 0.37 percentage points vs. the previous year (59.09%).

Profit on sales was up by 26.34%, while selling expenses were up by 28.10%, and general administrative expenses were up by 33.47%.

Operating profit totalled PLN 214,774 k (up by 22.53% vs. 2007), and operating profit margin amounted to 13.23% (in 2007: PLN 175,276 k and 13.75%, respectively).
Profit on ordinary operations was up by 28.58% vs. the previous year and totalled PLN 213,225 k.

Net profit generated in 2008 totalled PLN 167,507 k, up by 24.31% vs. the previous year (PLN 134,749 k). The resulting net profit margin amounted to 10.32% vs. 10.57% in the previous year.

Equity of LPP S.A. was up by 39.34% in 2008. It was mainly caused by the transfer of generated profit to equity.

Balance of long-term payables increased considerably – by 866.23 %. They were used for the acquisition of Artman S.A. shares and construction of a warehouse and distribution centre.

Short-term payables were up by 108.67% vs. the previous year. As at the end of 2008, bank credits were up by 333.14% vs. the end of 2007. At the same time, short-terms payables in respect of suppliers were up by 48.89%. This change resulted from the increased demand for commodities (development of the sales network), as well as presentation of a portion of long-term borrowings mature within the next 12 months under short-term borrowings.

In the reporting period, the balance of non-current assets was up by 167.48% as a result of large investments (development of the sales network, construction of a warehouse and distribution centre, and acquisition of Artman S.A.).

Current assets were up by 60.29% vs. the end of 2007. It was caused mainly by the increase in inventories (up by 62.44%), resulting *i.a.* from the development of the sales network following the acquisition of Artman S.A..

Values of profitability ratios presented in the table below resulted directly from the aforementioned factors, which determined the value of each category of profit.

1. Profitability ratios

In 2008, most profitability ratios were high, which confirms the high return on sales, assets, and equity.

Profitability ratios presented in the table were calculated as follows:

a) gross profit margin – gross profit on sales divided by revenues from sales of goods and services,
b) operating profit margin – operating profit divided by revenues from sales of goods and services,
c) net profit margin – net profit divided by revenues from sales of goods and services,
d) Return on Assets – net profit divided by average assets during the fiscal year,
e) Return on Equity – net profit divided by average equity during the fiscal year.

Current ratio was down by 23.19% vs. the previous year and amounted to 1.23. Quick ratio was also down vs. 2007 and dropped to 0.35. It resulted from the increase in borrowings related mainly to the implementation of the Company's investment strategy.

Inventory turnover ratio (days in inventory) increased from 180 to 208 days. The Company took efforts to improve this ratio.

Liquidity ratios were calculated as follows:

a) current ratio – current assets divided by the carrying amount of short-term payables,
b) quick ratio – current assets less inventory divided by the carrying amount of short-term payables,
c) inventory turnover ratio (days in inventory) – average inventory divided by costs of goods and products sold and multiplied by the number of days in a given period,
d) receivables turnover ratio (days in receivables) – average trade receivables divided by revenues from sales and multiplied by the number of days in a given period,
e) trade payables turnover ratio (days) – average trade payables divided by the costs of goods and products sold and multiplied by the number of days in a given period.

ratio	2008	2007	change %
liquidity ratio I (current ratio)	1.23	1.60	-23.19%
liquidity ratio II (quick ratio)	0.35	0.47	-25.69%
days in inventory	208	180	15.27%
days in receivables	17	16	6.04%
days in trade payables	113	98	15.57%

3. Management ratios (solvency ratios)

Fixed asset to equity ratio was down vs. the previous year, as growth in equity was much lower than growth in non-current assets – it resulted from the acquisition of Artman S.A. shares, construction of a warehouse and distribution centre, and development of the sales network.

Total debt ratio and short-term debt ratio were up vs. 2007, which resulted mainly from the method of financing of the aforementioned investments. Short-term debt was similar to last year's ratio.

Management ratios (solvency ratios) were calculated as follows:

a) fixed assets to equity ratio – shareholders' equity divided by fixed assets,
b) total debt – long- and short-term payables divided by the balance sheet total (including provisions for liabilities),
c) short-term debt – short-term debt divided by the balance sheet total,
d) long-term debt – long-term debt divided by the balance sheet total.

	2008	**2007**	**change**
ratio	**%**	**%**	**%**
fixed assets to equity ratio	73.36%	140.83%	-67.47%
total debt	60.37%	41.55%	18.82%
short-term debt	37.50%	36.76%	0.74%
long-term debt	22.60%	4.78%	17.81%

4. Agreements significant for the Capital Group's business, including agreements between shareholders (partners) known to the Issuer, as well as insurance or co-operation contracts

In 2008, LPP Capital Group concluded the following material agreements:

- Insurance contracts:
    - Insurance policy
    - Third-party liability insurance policy
    - EEI policy (electronics)
    - CAR policy (construction)
    - Machinery insurance policy
- Agreement on insurance guarantees for the repayment of customs debts
- New contracts of lease with distributors of commercial areas in shopping malls. These agreements refer to the lease of premises where the Reserved, Cropp, Esotiq, House, and Mohito clothing is sold. Information on contracts of high value was presented in the form of current reports.
- Investment agreement signed by LPP S.A. with Artman S.A. and three main founding shareholders of Artman S.A. Details on this contract were published in the form of current report no. RB 36/2008 dated 13 June 2008.
- New credit agreements (including investment credit agreement for 100% financing of the acquisition of Artman S.A. shares) and annexes amending credit agreements already in place. Detailed information on these agreements was published in the form of current reports (RB 32/2008 of 03 June 2008, RB 41/2008 of 24 June 2009, RB48/2008 of 31 July 2008, RB57/2008 of 24 September 2008, RB 61/2008 of 28 October 2008, RB70/2008 of 27 November 2008, RB73/2008 of 11 December 2008). A list of credit agreements was presented in Notes to the financial statements (section 13.14).

The Company has no knowledge of any contracts concluded by and between its Shareholders with potential impact on its operations.

5. Changes in the Capital Group's organisational or capital relations with other entities and description of the Issuer's major local and foreign investments (securities, financial instruments, intangible assets and real property), including capital expenditure outside the group of related parties and methods of their financing

Investments made by the LPP S.A. Capital Group are mainly associated with the related parties. The total value of shares in non-consolidated related parties amounts to PLN 718 k. In addition, loans granted by LPP Capital Group to third parties amount to PLN 1,159 k.

In 2008, the following significant change in the organisational and capital relations of LPP S.A was introduced: based on the tender offer announced on 22 September 2008, the Company acquired 4,256,485 shares of Artman S.A., representing 99.55% of company's share capital and carrying 6,256,917 votes, i.e. 99.69%% of the total vote at the General Meeting of Shareholders of Artman S.A..
The intention of LPP S.A. is to merge with Artman S.A. by acquisition, pursuant to Art. 492 § 1.1 of the Code of Commercial Companies.
This acquisition was financed with a bank credit (current report RB 50/2008 of 13 August 2008). Under the investment agreement signed by and between LPP S.A. and the main shareholders of Artman S.A., pursuant to which the tender offer was announced, on 22 September 2008 LPP S.A. issued 40,000 of series J shares taken over by the main shareholders of Artman S.A..

All related party transactions signed in the reporting period were concluded at arm's length.

6. Significant transactions concluded by the Issuer or its subsidiary with their related parties, other than concluded at arm's length, including their amounts and description

All related party transactions signed in the reporting period were concluded at arm's length.

7. Information on credits and loans incurred, specifying their maturity as well as guarantees and sureties granted to the Issuer.

Information on credits and loans incurred as at 31 December 2008 and their maturity is presented in Notes to the consolidated financial statements in section 13.14.

In 2008, Capital Group companies used bank guarantees to secure the payment of rent for leased retail premises where brand stores are located.
The total amount of bank guarantees granted at the request and on the responsibility of LPP S.A. and Artman S.A. as at 31 December 2008 was PLN 97,136 k, of which:

d) guarantees granted to secure agreements concluded by LPP S.A. – PLN 13,949k
e) guarantees granted to secure agreements concluded by consolidated related parties – PLN 62,797k
f) guarantees granted to secure agreements concluded by non-consolidated related parties – PLN 20,390k

As at 31 December 2008, the total amount of all sureties issued by the Parent Company reached PLN 11,392k, up by PLN 2,552k vs. 31 December 2007.

Last year, no loans were incurred by and no guarantees were granted to the Capital Group companies (apart from loans and sureties granted by LPP S.A.).

8. Information on loans granted, specifying their maturity, as well as guarantees and sureties granted by the Issuer, including loans, sureties and guarantees granted to the Issuer's related parties.

Loans granted are described in Notes to the financial statements (section 13.4).

In the reporting period, the Company issued the following guarantees:

Beneficiary	**Amount in PLN '000**	**Guarantee validity date**
Line for Paylink Citibank-Handlowy cards, guaranteeing payables of the Company's customers in respect of the bank	7 000	25-06-2009
Guarantee for a promissory note issued to Orlen for one entity	22	Indefinite-term contract
Guarantee granted to a subsidiary by LPP S.A. for payables related to the lease of retail premises	1 057	26-03-2020
Guarantee for the subsidiary company Re Trading under a commercial agreement	83	31-12-2008
Guarantee for the subsidiary company LPP Ukraina related to the lease of two stores	642	31-12-2020
Guarantee for the subsidiary company LPP Hungary Kft	2 586	31-12-2009

No guarantees or sureties were granted by subsidiaries. Subsidiaries received the above sureties related to bank guarantees from the Parent Company only.

9. Appropriation of proceeds from share issue

In 2008, the Company issued series I and series J shares.
2,567 new series J ordinary bearer shares of per-share nominal value PLN 2.00 were issued within authorised capital ex subscription rights, in order to implement the incentive scheme.
These shares were offered at the issue price of PLN 2.00 per share to the key employees and associates. Proceeds from this issue (PLN 5,134) were used to finance the Company's current operations.
40,000 new series J ordinary bearer shares of the nominal value of PLN 2.00 per share were offered in a private subscription to the three main founding shareholders of Artman S.A. The issue price of shares defined in the Investment Agreement was PLN 2,350, and the total value of this subscription was PLN 94,000,000. The fair value of this issue recorded in the accounts of LPP S.A. in accordance with IFRS 3.27 was carried at the stock exchange price applicable at the date of obtaining control over Artman S.A., i.e. PLN 925 per share. Proceeds from the issue of series J shares were used for the partial repayment of an investment credit incurred by the Issuer to finance the acquisition of Artman S.A. shares.

10. Explanation of differences between financial results disclosed in the annual report and forecast results for the fiscal year published earlier

No forecasts of financial results were published.

11. Assessment (and its rationale) of financial assets management, with particular focus on the repayment ability, as well as identification of possible threats and actions taken or to be taken by the Issuer to counter these threats

LPP Capital Group settles its payables in respect of State budgets and customers on an on-going basis. As a result of the modification of the Group's business model, which has been implemented for several years now (i.e. significant reduction of sales to wholesale customers), receivables turnover period was reduced. The recorded inflows and concluded credit agreements fully secure these liabilities.

12. Assessment of the feasibility of planned investments, including capital expenditure, against the value of owned assets, taking into account any possible changes in the structure of investment financing

Investment plans will be implemented based on the Capital Group's own funds and borrowings (bank credits). The Management Board intends to ask shareholders not to pay out dividends and transfer 100% of earnings generated in 2008 to reserve capital.

13. Assessment of factors and extraordinary events influencing the financial result for the fiscal year and identification of their impact on the financial result.

There were no extraordinary events influencing the financial result in 2008.

14. Description of external and internal key factors influencing the development of the Issuer's enterprise and description of perspectives for the development of the Issuer's business at least until the end of the current fiscal year, including elements of the Issuer's market strategy. Description of key risks and threats and their probability.

Basic objectives of the Company's Capital Group, influencing its future market position:
a) develop a network of brand stores in Poland and in Central and Eastern Europe,
b) create strong clothing brands (Reserved, Cropp, House, Mohito, and Esotiq).
c) merger with Artman S.A..
Achievement of the Issuer's strategic tasks and goals will depend on the following internal and external factors (representing both opportunities and threats):

Internal factors

a) The Company's market strategy

LPP S.A. Capital Group is focused on the design and distribution of clothing as well as on the brand building process while outsourcing many activities to third parties. The Capital Group does not have its own production capacity, which significantly reduces its fixed costs. Production of clothing is contracted out, mainly to contractors from the Far East. As a result, the goal of all investments is to increase the Company's trading potential, maintain its competitive edge on the market, develop its own network of distribution, create good image of LPP S.A. Capital Group on the clothing market, gain customers and ensure their loyalty to the Company and its products.

The strategy of development of the leading brand, Reserved, is focused on the creation of a specific brand image among its customers – an exceptional and prestigious brand, but still remaining in the mass segment of clothing.
The strategy of development of LPP S.A. Capital Group also assumes the extension of the Group's brand portfolio; to this end, the Company decided to merge with Artman S.A., owner of House and Mohito brands. The objective is to develop these brands in all markets where the Capital Group entities operate.
This merger will create one of the largest companies offering clothing and accessories through a network of dedicated brand stores in this part of Europe.

b) The Group's market position

The amount of revenues from sales generated by LPP S.A. is a sign of its strong market position in Poland. Despite the relatively small (3-5%) market share, the Company is one of the most important market players. This position is even stronger now as a result of the investment and planned merger with Artman S.A.. The Capital Group companies operating abroad in 2008 are visible in their respective markets and are strengthening their position as major market players. The total number of retail stores where Reserved, Cropp, House, Esotiq, and Mohito clothing is sold, both in Poland and abroad, is very high – 612 stores of the total selling area of 224 thousand square meters.

c) Extending and renewing the portfolio of products offered to customers

Products marketed by LPP S.A. Capital Group meet the expectations of target customer groups connected with the specific distribution channels. As the clothing business is closely linked to changes in fashion, LPP S.A. is keeping in touch with the ever-changing preferences of customers and launches new product groups to the market each year, trying to predict the market needs. To some extent, especially in the case of Reserved brand stores, LPP S.A. is trying to create its own style, based on global trends.
The Group also created a sub-brand RE-Kids for children, as well as women's underwear brand Esotiq.

d) Logistics

In 2008, LPP S.A. Capital Group completed its largest construction investment project to date – a warehouse and distribution centre. It is also one of the most cutting-edge investments in Poland in terms of the complexity of technologies and logistics processes for clothing warehouses. The new Centre is a great challenge and it will eliminate the storage of goods in multiple locations. With the use of state-of-the-art technology, the storage and distribution of goods to brand stores will become more efficient, and will guarantee a faster response to market demand.

e) Actions taken to reduce costs

In order to ensure the high level of efficiency and productivity of LPP S.A. Capital Group, actions were taken to reduce costs, including: reducing the growth in headcount, opening a new, high-efficiency warehouse and distribution centre, implementing only the most effective marketing projects, and reducing the scope of certain investment projects.

External factors

a) Economic slowdown in Poland and in countries where the Capital Group companies operate

Poland and the CEE region were also affected by the negative changes in the world economy that could be observed in the past year. We should expect a number of events that might reduce the consumer spending. The Capital Group took a number of actions to adjust its offer to these changes, by increasing the number of simple models sold at lower prices and by cutting its operating costs.

b) Foreign exchange rates

The majority of transactions related to the purchase of trading commodities are denominated in USD; a small portion of these transactions is settled in EURO.
Revenues from sales are denominated mainly in PLN. The unstable exchange rates of PLN vs. USD and EURO are the source of currency risks. At the same time, given the specific type of the Company's business, it is possible to partially transfer the risk of the increase in USD exchange rate to end customers, as the product selling price is calculated just before the product is introduced to the market. Apart from the currency risks related to the settlement currency used in the purchase of trading commodities, there are also other currency risks related to the settlement of rent for the leased commercial premises in EURO.

Information on currency risks is presented in section 10 of the Notes to the Financial Statements.

c) Changes in fashion – with impact on the attractiveness of products

The key factor of success for a clothing company is to predict the changing trends in fashion and adjust its offer to the current preferences of customers.
Fashion is therefore a focal point for LPP S.A. Capital Group. The design department keeps in touch with the ever-changing trends, trying to adapt them to the needs of our customers and offer the desired products with a good price-to-quality ratio. To achieve these goals, our design team participates in exhibitions around the world, looks for information in the industry publications, and keeps in touch with the latest developments in fashion on the Internet. LPP S.A. CG finds it very important to be up-to-date with the latest trends, knowing that fashion has major impact on its performance.

Perspectives for development of the Issuer's business

The long-term strategy of development of LPP S.A. Capital Group is based on the assumption that the Group will further strengthen its current market position and expand its business, both in Poland and abroad.
As at the end of 2008, 612 stores operated in Poland and abroad (Reserved, Cropp, House, Mohito, and Esotiq), with the total selling area of approx. 224 thousand square metres. In 2009, the Group is planning to open new stores and increase the total area of the brand stores network by about 15-20%.

15. Buy-back of treasury shares, in particular the purpose of buy-back, number and nominal value of treasury shares, % of share capital represented by treasury shares, buy-back price, and selling price of treasury shares (if sold)

In 2008, LPP S.A. started to buy back its treasury shares. Treasury shares bought back by the Company shall be taken over by shareholders of other entities to be merged with LPP S.A. through acquisitions.

Since the date of this decision 31 December 2008, the Company bought back 21,398 treasury shares, representing 1.23% of its share capital and carrying 21,398 of votes at the Company's AGM, i.e. 0.68% of the total vote. The total value of these shares is PLN 48,746 k.

16. Changes of the basic principles of management of the Issuer's business and its Capital Group

In 2008, there were no major changes in the management of the Issuer's business and its Capital Group.

17. Total number and nominal value of all the Issuer's shares and all shares of the related parties of LPP S.A. held by members of the Issuer's Management and Supervisory Board

As at 31 December 2008, members of the Company's Management and Supervisory Board held the following shares:

Shareholder	Number of shares held	Number of votes at the General Meeting of Shareholders	Nominal value of shares
President of the Management Board	324 390	1 024 390	648 780
Vice-President of the Board	5 954	5 954	11 908
Vice-President of the Board	2 225	2 225	4 450
Vice-President of the Board	2 664	2 664	5 328
Vice-President of the Board	2 341	2 341	4 682
Chairman of the Supervisory Board	226 338	926 338	452 676

Members of the Issuer's Management and Supervisory Board hold no shares of the Issuer's related parties.

18. Any agreements known to the Issuer (including agreements concluded after the balance sheet date) which may change the present structure of share ownership in the future in terms of number of shares held by current shareholders and bondholders

None.

19. System of control of the employee share option schemes

Not applicable.

20. Agreements concluded between the Company and members of its Management Board providing for the compensation in the event of their resignation or dismissal from positions currently held for no justified reason, or if they are recalled or dismissed as a result of a merger by acquisition

None.

21. Amount of remuneration, bonuses or rewards, including those received under incentive schemes or bonus schemes based on the Issuer's equity, including schemes based on bonds with pre-emptive rights, convertible bonds, subscription warrants (in cash, in kind, or in any other form), paid, due or potentially due to members of the Issuer's Management Board and Supervisory Board (separately)

These amounts are presented in section 13.20.1. of the Notes to the Financial Statements.

22. Entity authorised to audit financial statements

On 21 January 2008, LPP S.A. concluded the agreement with HLB Frąckowiak i Wspólnicy Sp. z o.o. (currently operating under the name Grant Thornton Frąckowiak Sp. z o.o.) for:

1) Review of the financial statements drawn up for the period from 1 January 2008 to 31 December 2008, with auditor's report and opinion.
   Cost: PLN 54,000 + 22% VAT.
2) Review of the consolidated financial statements of the Capital Group drawn up for the period from 1 January 2008 to 31 December 2008, with auditor's report and opinion.
   Cost: PLN 25,000 + 22% VAT.
3) Review of the interim financial statements drawn up for the period from 1 January 2008 to 30 June 2008, with auditor's report. Cost: PLN 33,000 + 22% VAT.
4) Review of the consolidated interim financial statements drawn up for the period from 1 January 2008 to 30 June 2008, with auditor's report.
   Cost: PLN 21,000 + 22% VAT.
5) Review of the financial statements drawn up for the period from 1 January 2009 to 31 December 2009, with auditor's report and opinion.
   Cost: PLN 54,000 + 22% VAT.
6) Review of the consolidated financial statements of the Capital Group drawn up for the period from 1 January 2009 to 31 December 2009, with auditor's report and opinion.
   Cost: PLN 25,000 + 22% VAT.
7) Review of the interim financial statements drawn up for the period from 1 January 2009 to 30 June 2009, with auditor's report. Cost: PLN 33,000 + 22% VAT.
8) Review of the consolidated interim financial statements drawn up for the period from 1 January 2009 to 30 June 2009, with statutory auditor's report.
   Cost: PLN 21,000 + 22% VAT.

The total amount of the auditor's net fee resulting from the aforementioned agreements is PLN 266,000 plus Value-Added Tax (22%), of which PLN 133,000 for the review of financial statements drawn up for the reporting year.

In addition, HLB Frąckowiak i Wspólnicy Sp. z o.o. (Grand Thornton Frąckowiak Sp. z o.o.) performed a task contracted by LPP S.A. on 3 June 2008 – a written report on the balance sheet effects of the acquisition of Artman S.A.. The cost of this service was PLN 12,000 + 22%VAT.

In the previous fiscal year, the Company paid PLN 125,000 for the audit of the Company's and the Group's financial statements for 2007, and PLN 45,000 for the development of the policy on transfer prices and the related documentation.

23. Statement of compliance with Corporate Governance Statement

a) The Management Board of LPP S.A. hereby declares that in 2008 the Company and its authorities complied with the rules of Good Practices for Companies Listed in the WSE, described in sections II, III, and IV thereof, with the exception of rules 7 and 8 in section III (Good practices of members of supervisory boards), providing for the appointment of an audit committee, as well as the scope of tasks and the functioning of the Supervisory Board committees.

Pursuant to the applicable internal regulations, the Supervisory Board of LPP S.A. is composed of 6 members – close to the minimum number required by the law. All functions are performed by the Supervisory Board as a whole. Two Supervisory Board members are independent. The lack of separate committees does not affect the performance of the Supervisory Board in any respect.
Information on the Corporate Governance Statement is available at the Company's corporate website www.lpp.com.pl
The Company does not apply any Corporate Governance rules exceeding the scope required by the Polish law.
In addition, the Company and its authorities complied with the rules of Good Practices for Companies Listed on the WSE, described in section I thereof, with the exception of the requirement to ensure the Internet transmission of the AGM, as well as the recording and publication of minutes at the corporate website.

b) Main principles of the internal control and risk management systems used by the Company in relation to the process of preparation of financial statements and consolidated financial statements

LPP S.A. has an effective internal control system in place, well suited to its needs and the specific type of its business, and ensuring:
- the complete invoicing of revenues,
- optimum cost control,
- effective use of resources and assets,
- correctness and reliability of financial data contained in financial statements and interim reports,
- optimum protection of sensitive information and prevention of uncontrolled leaks of information from the Company,
- quick and effective identification of any irregularities,
- identification of major risks and optimum response.

Elements of the internal control system of LPP S.A. are as follows:
- control activities taken at all levels and in all organisational units, based on specific procedures (permits, authorisations, verifications, reviews of operations, division of responsibilities), making it possible to ensure compliance with guidelines of the Company's Management Board, and at the same time to take the necessary actions to identify and minimise errors and threats,
- document control instruction – the optimum system of document circulation, recording, and control (to ensure compatibility of records in the Company's accounts and the accounting evidence)
- well-qualified control personnel,
- division of responsibilities – making it impossible for one employee to perform all tasks connected with the implementation and documentation of any business transaction,
- stocktaking instruction – defining the principles of use, storage, and stock taking of assets,
- principles of balance sheet depreciation of tangible fixed assets and amortisation of intangible assets,
- IT system – the Company's accounts are kept based on the AWEK Integrated Business Management System in the Company's registered office; this system ensures that the processed data is reliable, accurate and true, and the access to the AWEK database is restricted to the authorised staff only within the scope of their respective duties,

- the accounting policy based on the International Accounting Standards, International Financial Reporting Standards (IAS/IFRS), and the related interpretations published in the form of Regulations of the European Commission,
- communication system facilitating the exchange of information necessary for the optimum management and control of the Company.

In the process of preparation of the Company's financial statements, both separate and consolidated, an audit of financial statements performed by an independent statutory auditor is the key element of internal control.

The Company's statutory auditor is appointed by the Supervisory Board of LPP S.A. The task of the statutory auditor is to review the half-year and annual statements, control the methods of their preparation, as well as confirm compliance with the underlying accounting principles.

Two functions are responsible for the preparation of financial statements: accounting (Chief Accountant) and finance (CFO). Before any financial statements are handed over to the statutory auditor for review, they are verified by the CFO for their completeness and the correct presentation of all business events.

LPP S.A. reviews its strategies and the implementation of business plans every 6 months. This system is correlated with the business cycle in the clothing sector. After the half-year reporting period is closed, the Company's results are analysed by the senior and middle level management, in cooperation with the Finance Department. Results of operations of the Company as a whole, its departments, or even individual stores, are analysed on a monthly basis. The Company's authorities monitor the functioning of the internal control system and the closely linked risk management system on an on-going basis in relation to the preparation of financial statements. LPP S.A. analyses the areas of risks connected with the Company's business. The management plays a key role here, being responsible for the monitoring of the performance of their respective departments, including the identification and assessment of risks related to the preparation of financial statements that must be reliable, accurate, and compliant with the law.

c) Shareholders holding large blocks of the Company's shares, either directly or indirectly; the number of shares held by these shareholders; percentage share in share capital; number of votes carried by these shares and their percentage share in the total vote at the General Meeting

Shareholder	Number of shares held	Number of votes at the General Meeting of Shareholders	Share in the total vote at the General Meeting of Shareholders	Share in share capital
Marek Piechocki	324 390	1 024 390	32.56%	18.58%
Jerzy Lubianiec	226 338	926 338	29.44%	12.96%
Grangefont Limited, headquartered in London, the UK	350 000	350 000	11.13%	20.05%
Other shareholders	845 339	845 339	26.87%	48.41%
TOTAL	1 746 067	3 146 067	100.00%	100.00%

d) Holders of securities with special control powers, as well as any limitations on the transfer of titles to securities and the exercise of voting rights (such as the limitation of voting rights for holders of the specific portion or number of votes)

Shareholders holding shares representing over 15% of the total number of votes at the General Meeting of Shareholders shall execute their voting rights up to the limit of 15% of votes regardless of the number of votes actually represented by the number of shares held. Two shareholders who have managed the Company for many years, i.e. Mr Jerzy Lubianiec and Mr Marek Piechocki hold 175,000 series B preference shares each (one share represents 5 votes at the AGM). In addition, their shares are not subject to the aforementioned limitations set forth in the Articles of Association (i.e. execution of voting rights up to the limit of only 15% of votes at the AGM regardless of the number of votes represented by shares held). Under the aforementioned provisions of the Articles of Association, these two shareholders hold a superior position. Limitations set for the transfer of ownership titles to securities refer to registered shares and series I shares.

The Company's consent is required for the transfer or pledging of any registered shares. This consent shall be null and void unless granted by the Supervisory Board in writing within 14 days from the submission of a relevant request. If this consent is withheld, the Company shall define an alternative buyer within 30 days, as well as the date and place of payment; otherwise, shares may be sold with no limitations.

Series I shares issued under the Company's incentive and performance scheme for the management (Executive Share Option Scheme) must not be sold within 2 years after they are taken over. The objective of this limitation is to provide a closer link between the key management personnel and the Company, by introducing performance-based compensation.

e) Rules of appointment and dismissal of members of the Management Board, as well as their scope of powers, in particular the right to decide on the issue or buy-back of shares

The Management Board is composed of two to five members, including the President of the Management Board and 1 to 4 Vice-Presidents. The number of the Management Board members shall be determined by the Supervisory Board.
Management Board members shall be appointed and dismissed by the Supervisory Board (for the five-year term of office).
The competencies and methods of work of the Management Board of LPP S.A. are defined in the following documents:

- Articles of Association of LPP S.A. (available at the Company's website)
- Management Board Bylaws (available at the Company's website)
- The Code of Commercial Companies

The Management Board shall be responsible for any matters not restricted to other authorities of LPP S.A.
The Management Board shall have no right to decide on the issue or buy-back of shares.

f) Principles of amendment of the Issuer's Articles of Association

Resolution of the General Meeting of Shareholders is required for any amendment of the Company's Articles of Association.

g) Functioning and competencies of the General Meeting of Shareholders, rights of shareholders and methods of their exercise

Appointment of the General Meeting of Shareholders

1) General Meeting of Shareholders may be either Annual or Extraordinary.
2) General Meeting of Shareholders shall be held in Gdańsk, Warszawa or Sopot, as indicated by the Management Board.
3) Annual General Meetings shall be held annually, within six months after the end of each financial year.
4) Extraordinary General Meeting shall be convened by the Company's Management Board on its own initiative or upon a written request of the Company's Supervisory Board or Shareholders representing at least 10% of the Company's share capital.
5) Appointment of an AGM, as well as its date, time, and place, shall be announced by the Management Board in *Monitor Sądowy i Gospodarczy.*

Competencies of the General Meeting of Shareholders

1) Review and approval of financial statements and Management Discussion and Analysis of LPP S.A. operations in the previous year.
2) Take decisions regarding any claims to make good any damage suffered during the formation of LPP S.A. or caused by any actions related to Company's management or supervision,
3) Decide on the distribution of profits or offset of losses.
4) Grant a vote of acceptance to members of authorities of LPP S.A. confirming the discharge of their duties.
5) Decide on the issue of bonds, including convertible bonds.
6) Amend the Company's Articles of Association.
7) Adopt resolutions on any merger, transformation, dissolution, or liquidation of LPP S.A.
8) Adopt resolutions for any disposal or lease of an enterprise and establishment of a right in rem thereon.
9) Analyse and decide on any motions submitted by the Supervisory Board.
10) Decide on any other matters restricted to the General Meeting in the Code of Commercial Companies and the Company's Articles of Association.

Session of the General Meeting of Shareholders

1) Any session of the General Meeting of Shareholders shall be opened by the Chairperson of the Supervisory Board or an authorised person. The Chairperson of the Supervisory Board announces the election of the chairperson of the AGM.
2) The Chairperson of the General Meeting shall be elected without delay. He/she shall chair the AGM and ensure the proper and uninterrupted conduct of the Meeting.
3) The General Meeting may adopt resolutions only on matters covered by its agenda.
4) Draft resolutions to be adopted by the General Meeting and other relevant documents should be presented to shareholders along with a justification and opinion of the Supervisory Board.
5) The entire conduct of the General Meeting shall be recorded by a Notary Public in the minutes.

Voting

1) Voting at the General Meeting is open. Confidential vote shall be introduced for the election of the Company's authorities, for voting on motions for dismissal of members of the Company's authorities or liquidators, or their liability, and with respect to personal matters. In addition, confidential vote shall be introduced if requested by even a single shareholder or his/her proxy.
2) The General Meeting may elect 3 members of the Voting Committee, whose task it to ensure that each vote is conducted properly, supervise any computer-assisted work (if electronic equipment is used for voting), and check and announce the results.
3) Each share shall carry one vote at the General Meeting of Shareholders. One series B preference share shall carry five votes at the General Meeting.
4) The Chairperson of the General Meeting shall announce results of voting, which are then recorded in the minutes of the Meeting.

h) Composition of the Management and Supervisory Board and its changes during the fiscal year, as well as description of the functioning of the management, supervisory, or administrative bodies and their respective committees

Management Board of LPP S.A.

Members of the Management Board as at 31 December 2008:

- Marek Piechocki – President of the Management Board
- Alicja Milińska – Vice President of the Management Board
- Stanisław Dreliszak – Vice President of the Management Board
- Dariusz Pachla – Vice President of the Management Board
- Aleksander Moroz – Vice President of the Management Board

There were no changes in the composition of the Management Board in the last fiscal year. As of 30 June 2008, the Supervisory Board of LPP S.A. appointed the same members of the Management Board of LPP S.A.

The competencies and methods of work of the Management Board of LPP S.A. are defined in the following documents:

- Articles of Association of LPP S.A. (available at the Company's website)
- Management Board Bylaws (available at the Company's website)
- The Code of Commercial Companies

Supervisory Board

Members of the Supervisory Board as at 31 December 2008:

- ■Jerzy Lubianiec – Chairman of the Supervisory Board
- ■Krzysztof Olszewski – Member of the Supervisory Board
- ■Wojciech Olejniczak – Member of the Supervisory Board
- ■Maciej Matusiak – Member of the Supervisory Board
- ■Krzysztof Fąferek – Member of the Supervisory Board
- ■Antoni Tymiński – Member of the Supervisory Board

Composition of the Supervisory Board changed during the fiscal year:

- Andrzej Puślecki resigned from the position of the Supervisory Board member of LPP S.A. as of 02 January 2008 - before 30 June 2008, composition of the Supervisory Board was as follows:

- ■Jerzy Lubianiec – Chairman of the Supervisory Board
- ■- Krzysztof Olszewski – Member of the Supervisory Board
- ■Wojciech Olejniczak – Member of the Supervisory Board
- ■Maciej Matusiak – Member of the Supervisory Board
- ■Krzysztof Fąferek – Member of the Supervisory Board

The competencies and methods of work of the Supervisory Board of LPP S.A. are defined in the following documents:

- ■Articles of Association of LPP S.A. (available at the Company's website)
- ■Supervisory Board Bylaws (available at the Company's website)
- ■The Code of Commercial Companies

Marek Piechocki

President of the Management Board

Alicja Milińska	*Stanisław Dreliszak*	*Dariusz Pachla*	*Aleksander Moroz Vice*
Vice President of the	*Vice President of the*	*Vice President of the*	*President of the*
Management Board	*Management Board*	*Management Board*	*Management Board*

LETTER OF REPRESENTATION OF THE MANAGEMENT BOARD OF LPP S.A.

MANAGEMENT BOARD'S LETTER OF REPRESENTATION

Pursuant to the provisions of the Ordinance of the Minister of Finance of 19 February 2009 on Current and Interim Information Provided by Issuers of Securities, the Management Board of LPP S.A. hereby represents that:

- to the best of the Board's knowledge, the annual consolidated financial statements and comparative data have been prepared in line with the accounting principles currently in effect and present a true and fair view of the assets, financial standing, and financial result of LPP Capital Group,

- the annual consolidated report on the Issuer's operations presents a true and fair view of the development and achievements of LPP Capital Group, including an accurate description of the risks and threats,

- the entity authorised to audit financial statements that audited the annual consolidated financial statements was appointed in line with the applicable legal provisions currently in effect. This entity and certified auditors who audited the financial statements satisfied all conditions required to produce an impartial and independent audit report, as per the applicable provisions of the Polish law.

Marek Piechocki

President of the Management Board

Alicja Milińska	*Stanisław Dreliszak*	*Dariusz Pachla*	*Aleksander Moroz*
Vice President of the Management Board	*Vice President of the Management Board*	*Vice President of the Management Board*	*Vice President of the Management Board*

Gdańsk, 16 April 2009