

Dear Shareholders,

Last year, which was an exceptional year for the region and for the Capital Group due to the expansion of the European Union, we were successful in meeting our targets. The process of our reorganization commenced a few years back is coming to an end. Today, we may claim that Grupa Kapitałowa LPP S.A. is involved in the sale of products by developing own retail sale networks. We continue to focus our attention on how our products meet our customers' expectations.

Last year, Grupa Kapitałowa LPP S.A. generated revenue of PLN 547 million which translated into PLN 43 million worth of income. The earnings per share are ca. PLN 25. Each single zloty of the shareholder's equity generated PLN 0.25 of profit.

Our performance is associated with the functioning and development of own retail sales network, which in 2004 was additionally supplemented with CroppTown stores offering apparel for another group of customers. The first effects of the operation of the new stores, for the time being based only in Poland, are sufficient, and in 2005 we expect to generate profit from that network. Thus, we run two retail sales networks: Reserved, which offers clothing under the same brand, and CroppTown, which offers mainly Cropp clothes. We manage the total of 150 shops with the area of 64,000 square meters located in Poland, the Czech Republic, Russia, Estonia, Lithuania, Latvia, the Ukraine and Hungary. The effectiveness of this process depends on the skills and commitment of people and applied tools. Last year, we finished the complex process of implementing Retek software and related staff trainings. Our system makes it possible to manage sales and goods effectively and, when combined with a successful logistics system, ensure the optimum selection of offers in particular sales outlets. The opportunity of offering attractive products to customers is strictly associated with the operation of the whole system of designing and purchasing performed at the Asian and European manufacturers. We increased the share of goods manufactured in Poland in our offer up to 20% and although the bulk of production, i.e. 70%, is ordered in China we still seek suppliers on new markets. It is one of the activities which aims to provide customers with diverse, always the most fashionable apparel and accessories. In 2004, we also focused our efforts on the improvement of the interior decoration in our stores. At the beginning of the year, we finally worked out the details of the CroppTown project, and towards the end of the year, we opened the first Reserved shops with new interior decoration that we had been designing and preparing for a couple of months. The stores are adjusted to the new offer extended with new clothes lines.

This year, we plan to develop both retail sales networks and, what follows, expand the total commercial area, which is decisive for the company's potential, up to ca. 90,000 square metres. We also intend to work on new business concept – another retail sales network that we would like to launch next year. We also plan to build up CroppTown network outside Poland. We will continue to place great importance onto our products by making all efforts to

meet customers' expectations and offer the most fashionable clothes. These ambitious development plans, which are the focal tasks for me and the whole Grupa Kapitałowa LPP S.A., call for substantial capital expenditure. Without investments we cannot sustain our growth rate and maintain the high status of Grupa Kapitałowa LPP S.A. in the region. Like in previous years, I hope that the gains generated by us will be allocated by shareholders to the development of the Capital Group.

I am convinced that our Capital Group, also present on the regional market, has great growth potential, as there are still chances to win new market segments and enhance the operation in the parts of the market on which we are already present. I am certain that, in the years to come, Grupa Kapitałowa LPP S.A. will bring satisfaction to its shareholders.

*Marek Piechocki*

*President of the Board of Directors*