

LPP S.A. Capital Group
Interim condensed financial statement for Q2 FY 2008
In PLN thousands

LPP S.A. Group

Interim condensed financial statement for Q2 FY 2008

Gdańsk
August 2008

1. Selected consolidated financial data of LPP S.A. Capital Group

in PLN '000

Selected consolidated financial data	2 quarters 2008	2 quarters 2007	2 quarters 2008	2 quarters 2007
	01/01/2008- 30/06/2008	01/01/2007- 30/06/2007	01/01/2008- 30/06/2008	01/01/2007- 30/06/2007
	in PLN '000		in EUR '000	
Net revenues from sales of products, goods and materials	697 793	563 466	200 654	146 408
Operating profit (loss)	72 238	65 899	20 772	17 123
Gross profit (loss)	63 845	61 303	18 359	15 929
Net profit (loss)	52 898	50 244	15 211	13 055
Net cash flow from operations	41 523	56 963	11 940	14 801
Net cash flow from investments	-150 229	-25 527	-43 199	-6 633
Net cash flow from financial activity	105 016	-28 097	30 198	-7 301
Total net cash flow	-3 690	3 339	-1 061	868

Selected consolidated financial data	2 quarters 2008	2 quarters 2007	2 quarters 2008	2 quarters 2007
	01/01/2008- 30/06/2008	01/01/2008- 30/06/2007	01/01/2007- 30/06/2008	01/01/2007- 30/06/2007
	in PLN '000		in EUR '000	
Total assets	844 089	574 628	251 651	152 591
Long-term payables	96 943	16 328	28 902	4 336
Short-term payables	331 128	235 230	98 720	62 465
Equity	414 389	322 402	123 543	85 613
Share capital	3 412	3 407	1 017	905
Number of shares	1 706 067	1 703 500	1 706 067	1 703 500
Earnings (loss) per ordinary share (EPS) (in PLN/EURO)	31.0	29.5	8.1	7.3
Book value per share – BVPS (in PLN/EURO)	242.9	189.3	61.7	46.3

2. Consolidated Balance Sheet of LPP S.A. Capital Group

in PLN '000

Balance Sheet	as at the end of:		
	Q2 2008 30/06/2008	Q2 2007 30/06/2007	previous year 31/12/2007
ASSETS			
Non-current assets (long-term)	396 083	222 202	288 043
1. Tangible fixed assets (Property, Plant & Equipment)	360 819	195 481	258 334
2. Intangible assets	12 407	12 507	12 186
3. Investments	1 514	916	910
4. Receivables	3 768	1 517	3 589
5. Deferred income tax assets	17 384	11 777	13 020
6. Prepaid expenses	191	4	4
Current assets (short-term)	448 006	352 426	409 112
1. Inventories	321 750	262 829	289 527
2. Trade and other receivables	70 734	51 093	60 809
3. Prepaid expenses	3 654	2 688	3 235
3. Investments	2 126	1 928	2 109
5. Cash and cash equivalents	49 742	33 888	53 432
Total assets	844 089	574 628	697 155

LIABILITIES

Equity	414 389	322 402	405 662
1. Share capital	3 412	3 407	3 407
2. Treasury shares	-48 744		
3. Reserve capital	399 002	274 748	274 748
4. Other reserves	104	104	104
5. Retained profit/accumulated loss carried forward from previous years	9 348	-7 067	-7 067
6. Net profit/loss of the reporting period	52 898	50 244	134 749
7. Foreign exchange differences (conversion of related parties)	-1 631	966	-279
Long-term payables	96 943	16 328	33 358
1. Borrowings (bank credits and loans)	91 361	11 000	27 865
2. Provisions	831	511	563
3. Deferred income tax provision	4 751	4 817	4 930
4. Other long-term payables	0	0	0
Short-term payables	331 128	235 230	256 287
1. Trade and other payables	167 800	126 413	166 692
2. Borrowings (bank credits and loans)	150 604	98 013	57 017
3. Income tax	9 814	8 707	23 443
4. Provisions	2 583	1 798	8 992
5. Special funds	327	299	143
Accruals and deferred income	1 629	668	1 848
Total liabilities	844 089	574 628	697 155
Book value	414 389	322 402	405 662
Number of shares	1 706 067	1 703 500	1 703 500
Book value per share – BVPS (in PLN)	242.9	189.3	238.13

3. Consolidated Profit and Loss Account of LPP S.A. Capital Group

in PLN '000

	YTD	Q2 2008	YTD	Q2 2007
Profit and Loss Account	current year 01/01/2008- 30/06/2008	01/04/2008- 30/06/2008	previous year 01/01/2007- 30/06/2007	01/04/2007- 30/06/2007
Revenues from sales	697 793	358 137	563 466	297 198
Selling costs	283 987	130 344	241 809	111 822
Gross profit/loss on sales	413 806	227 793	321 657	185 376
Other operating revenues	3 059	1 535	2 202	1 252
Costs of sales	292 348	155 348	222 219	116 511
General administrative expenses	43 882	23 244	28 738	14 806
Other operating expenses	8 397	3 837	7 003	4 413
Operating profit/loss	72 238	46 899	65 899	50 898
Financial revenues	1 627	1 375	1 227	463
Financial expenses	10 020	6 832	5 823	4 160
Gross profit/loss	63 845	41 442	61 303	47 201
Taxation	10 947	6 624	11 059	8 328
Net profit/loss	52 898	34 818	50 244	38 873
Weighted average number of ordinary shares	1 706 067	1 706 067	1 703 500	1 703 500
Earnings (loss) per ordinary share (EPS) (in PLN)	31.0	20.4	29.5	22.8

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.

4. Consolidated Statement of Changes in Equity of LPP S.A. Capital Group

in PLN '000

Statement of Changes in Equity	Share capital	Treasury shares	Reserve capital	Other reserves	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							656	656
Distribution of retained earnings from previous years			42 482	21	-42 503			0
Net profit for Q2 FY07						50 244		50 244
As at 30 June 2007	3 407		274 748	104	-7 067	50 244	966	322 402
As at 1 January 2008	3 407		274 748	104	127 682	0	-279	405 662
- corrections of errors from previous years					-22			-22
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							-1 352	-1 352
Buy-back of treasury shares		-48 744						-48 744
Increase in share capital	5							5
Distribution of retained earnings from previous years			118 312		-118 312			0
Share-based payments			5 942					5 942
Net profit for Q2 FY08						52 898		52 898
As at 30 June 2008	3 412	-48 744	399 002	104	9 348	52 898	-1 631	414 389

5. Consolidated Cash Flow Statement of LPP S.A. Capital Group

in PLN '000

Cash Flow Statement	YTD	Q2 2008	YTD	Q2 2007
	current year		previous year	
	01/01/2008- 30/06/2008	01/04/2008- 30/06/2008	01/01/2007- 30/06/2007	01/04/2007- 30/06/2007
A. Cash flow from operations – indirect method				
I. Gross profit (loss)	63 845	41 442	61 303	47 201
II. Total adjustments	-22 322	8 374	-4 340	3 380
1. Depreciation and amortisation	28 822	14 777	23 934	12 472
2. Foreign exchange (gains) losses	2 620	1 596	659	891
3. Interest and profit sharing (dividends)	3 644	2 621	1 237	222
4. (Profit) loss from investments	-773	-935	504	389
5. Income tax paid	-27 975	-3 359	-6 246	-4 587
6. Change in provisions	-1 048	-1 773	473	-1 421
7. Change in inventories	-35 155	-43 025	-32 689	-29 357
8. Change in receivables	-12 012	22 824	-2 048	5 287
9. Change in short-term payables, excluding credits and loans	23 570	16 663	10 667	18 163
10. Change in prepaid expenses, accruals and deferred income	-869	-46	-517	1 310
11. Other adjustments	-3 146	-969	-314	11
III. Net cash flow from operations	41 523	49 816	56 963	50 581
B. Cash flow from investments				
I. Inflows	1 648	304	1 126	229
1. Sale of intangible assets and tangible fixed assets	1 405	173	981	135
2. From financial assets, of which:	243	131	145	94
a) in related parties	0	0	0	0
- dividends and profit sharing				
b) in other entities	243	131	145	94
- sale of financial assets				
- repayment of short-term loans granted	220	117	136	89
- interest	23	14	9	5
3. Other inflows from investments				

II. Outflows	151 877	87 170	26 653	15 176
1. Acquisition of intangible assets and tangible fixed assets	151 105	86 552	26 303	14 826
2. On financial assets, of which:	772	618	350	350
a) in related parties	348	348	0	0
- acquisition of shares	348	348		
b) in other entities	424	270	350	350
- short-term loans granted	28	0	271	271
- long-term loans granted	396	270	79	79
3. Other outflows on investments				
III. Net cash flow from investments	-150 229	-86 866	-25 527	-14 947
C. Cash flow from financial activity				
I. Inflows	158 069	96 620	0	0
1. Credits and loans	158 064	96 615		
2. Net inflows – issue of shares	5	5		
II. Outflows	53 053	50 352	28 097	30 564
1. Buy-back of treasury shares	48 744	47 469		
2. Repayment of credits and loans			24 975	28 912
3. Payments related to finance lease agreements	10	3	21	9
4. Interest	4 299	2 880	3 101	1 643
5. Other financial outflows				
III. Net cash flow from financial activity	105 016	46 268	-28 097	-30 564
D. Total net cash flow	-3 690	9 218	3 339	5 070
E. Total cash flow balance, of which:	-3 690	9 218	3 339	5 070
- change in cash – foreign exchange differences	-1 770	-1 140	-314	21
F. Opening cash balance	53 432	40 524	30 549	28 818
G. Closing cash balance, of which:	49 742	49 742	33 888	33 888
- restricted cash	242	242	242	242

6. Selected financial data – separate statement of LPP S.A.

Selected financial data	in PLN '000				in EUR '000			
	2 quarters 2008		2 quarters 2007		2 quarters 2008		2 quarters 2007	
	01/01/2008- 30/06/2008	01/01/2008- 30/06/2008	01/01/2007- 30/06/2007	01/01/2007- 30/06/2007	01/01/2008- 30/06/2008	01/01/2008- 30/06/2008	01/01/2007- 30/06/2007	01/01/2007- 30/06/2007
Net revenues from sales of products, goods and materials	307 112	247 925	88 311	64 420				
Operating profit (loss)	46 084	45 627	13 252	11 855				
Gross profit (loss)	36 619	37 514	10 530	9 747				
Net profit (loss)	30 105	29 298	8 657	7 613				
Net cash flow from operations	34 483	44 411	9 916	11 540				
Net cash flow from investments	-80 516	-12 460	-23 153	-3 238				
Net cash flow from financial activity	50 874	-31 440	14 629	-8 169				
Total net cash flow	4 841	511	1 392	133				

Selected financial data	2 quarters 2008		2 quarters 2007		2 quarters 2008		2 quarters 2007	
	01/01/2008- 30/06/2008	01/01/2008- 30/06/2008	01/01/2007- 30/06/2007	01/01/2007- 30/06/2007	01/01/2007- 30/06/2007	01/01/2007- 30/06/2007	01/01/2007- 30/06/2007	01/01/2007- 30/06/2007
	in PLN '000				in EUR '000			
Total assets	809 508	549 113	241 342	145 816				
Long-term payables	96 519	15 509	28 776	4 118				
Short-term payables	308 810	213 057	92 067	56 577				
Equity	403 014	319 891	120 152	84 946				
Share capital	3 412	3 407	1 017	905				
Number of shares	1 706 067	1 703 500	1 706 067	1 703 500				
Earnings (loss) per ordinary share (EPS) (in PLN/EURO)	17.6	17.2	5.0	1.9				
Book value per share – BVPS (in PLN/EURO)	236.2	187.8	67.0	43.3				

7. Balance Sheet of LPP S.A.

in PLN '000

Balance Sheet	as at the end of:		
	Q2 2008 30/06/2008	Q2 2007 30/06/2008	previous year 31/12/2007
ASSETS			
Non-current assets (long-term)	330 572	166 874	228 569
1. Tangible fixed assets (Property, Plant & Equipment)	268 994	126 330	183 413
2. Intangible assets	12 084	12 192	11 781
3. Investments	33 846	17 801	21 835
4. Receivables	333	262	341
5. Deferred income tax assets	15 124	10 285	11 195
6. Prepaid expenses	191	4	4
Current assets (short-term)	478 936	382 239	427 549
1. Inventories	273 748	232 654	252 638
2. Trade and other receivables	181 592	129 019	142 549
3. Prepaid expenses	2 704	2 362	2 624
3. Investments	4 310	3 389	4 725
5. Cash and cash equivalents	16 582	14 815	25 013
Total assets	809 508	549 113	656 118

LIABILITIES

Equity	403 014	319 891	396 354
1. Share capital	3 412	3 407	3 407
2. Treasury shares	-48 743		
3. Reserve capital	398 888	274 635	274 635
4. Retained profit/accumulated loss carried forward from previous years			
5. Net profit/loss of the reporting period	49 457	41 849	118 312
Long-term payables	96 519	15 509	32 818
1. Borrowings (bank credits and loans)	91 361	11 000	27 865
2. Provisions	831	511	563
3. Deferred income tax provision	4 327	3 998	4 390
Short-term payables	308 810	213 057	225 512
1. Trade and other payables	151 475	116 259	147 125
2. Borrowings (bank credits and loans)	145 934	87 274	48 140
3. Income tax	9 728	8 557	22 258
4. Provisions	1 345	668	7 846
5. Special funds	328	299	143
Accruals and deferred income	1 165	656	1 434
Total liabilities	809 508	549 113	656 118
Book value	403 014	319 891	396 354
Number of shares	1 706 067	1 703 500	1 703 500
Book value per share – BVPS (in PLN)	236.2	187.8	232.7

8. Profit and Loss Account of LPP S.A.

	in PLN '000			
	YTD	Q2 2008	YTD	Q2 2007
	current year		previous year	
Profit and Loss Account	01/01/2008- 30/06/2008	01/04/2008- 30/06/2008	01/01/2007- 30/06/2007	01/04/2007- 30/06/2007
Revenues from sales	621 074	307 112	482 260	247 925
Selling costs	296 615	132 409	236 081	108 630
Gross profit/loss on sales	324 459	174 703	246 179	139 295
Other operating revenues	3 595	1 683	3 445	2 555
Costs of sales	209 961	111 612	157 712	82 947
General administrative expenses	29 343	16 014	20 544	10 256
Other operating expenses	6 823	2 676	6 402	3 020
Operating profit (loss)	81 927	46 084	64 966	45 627
Financial revenues	3 341	2 766	2 312	1 778
Financial expenses	24 485	12 231	13 701	9 891
Gross profit/loss	60 783	36 619	53 577	37 514
Taxation	11 326	6 514	11 728	8 216
Net profit/ loss	49 457	30 105	41 849	29 298
Weighted average number of ordinary shares	1 706 067	1 706 067	1 703 500	1 703 500
Earnings (loss) per ordinary share (EPS) (in PLN)	28.99	17.65	24.57	17.20

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.

LPP S.A. Capital Group
Interim condensed financial statement for Q2 FY 2008
In PLN thousands

9. Statement of Changes in Equity of LPP S.A.

						in PLN '000
Statement of Changes in Equity	Share capital	Treasury shares	Reserve capital	Retained profit/accumulated loss carried forward from previous years	Net profit/loss of the reporting period	TOTAL equity
As at 1 January 2007	3 407		232 153	42 482		278 042
- corrections of errors from previous years						0
As at 1 January 2007 (corrected)	3 407		232 153	42 482	0	278 042
Distribution of retained earnings from previous years			42 482	-42 482		
Net profit for Q2 FY07					41 849	41 849
As at 30 June 2007	3 407		274 635	0	41 849	319 891
As at 1 January 2008	3 407		274 635	118 312		396 354
- corrections of errors from previous years						0
As at 1 January 2008 (corrected)	3 407		274 635	118 312	0	396 354
Buy-back of treasury shares		-48 743				-48 743
Increase in share capital	5					5
Distribution of retained earnings from previous years			118 312	-118 312		0
Share-based payments			5 941			5 941
Net profit for Q2 FY08					49 457	49 457
As at 30 June 2008	3 412	-48 743	398 888	0	49 457	403 014

10. Cash Flow Statement of LPP S.A.

Cash Flow Statement	in PLN '000			
	YTD	Q2 2008	YTD	Q2 2007
	current year		previous year	
	01/01/2008- 30/06/2008	01/04/2008- 30/06/2008	01/01/2007- 30/06/2007	01/04/2007- 30/06/2007
A. Cash flow from operations – indirect method				
I. Gross profit (loss)	60 783	36 619	53 577	37 514
II. Total adjustments	-46 616	-2 136	-12 320	6 897
1. Depreciation and amortisation	18 171	9 190	15 188	7 754
2. Foreign exchange (gains) losses	2 642	1 442	537	795
3. Interest and profit sharing (dividends)	3 423	2 504	959	81
4. (Profit) loss from investments	1 108	-612	8 361	5 931
5. Income tax paid	-27 604	-3 207	-6 162	-4 525
6. Change in provisions	-1 224	-1 951	402	22
7. Change in inventories	-21 110	-40 548	-37 126	-32 844
8. Change in receivables	-38 863	-4 274	-6 332	11 010
9. Change in short-term payables, excluding credits and loans	16 443	34 505	11 908	18 478
10. Change in prepaid expenses, accruals and deferred income	-536	-119	-55	195
11. Other adjustments	934	934		
III. Net cash flow from operations	14 167	34 483	41 257	44 411
B. Cash flow from investments				
I. Inflows	2 952	594	1 687	535
1. Sale of intangible assets and tangible fixed assets	1 402	171	967	134
2. From financial assets, of which:	1 550	423	720	401
a) in related parties	1 314	294	576	308
- repayment of short-term loans	600		0	0
- interest and dividends	714	294	576	308
- repayment of long-term loans granted			0	0
b) in other entities	236	129	144	93
- interest	16	12	8	4
- repayment of short-term loans granted	220	117	136	89
3. Other inflows from investments				0

II. Outflows	133 917	81 110	18 225	12 995
1. Acquisition of intangible assets and tangible fixed assets	116 703	67 357	17 875	12 645
2. On financial assets, of which:	17 214	13 753	350	350
a) in related parties	16 790	13 483	0	0
- acquisition of shares and additional paid-in capital	11 450	9 968		0
- short-term loans granted				0
- long-term loans granted	5 340	3 515		
b) in other entities	424	270	350	350
- long-term loans granted	396	270	79	79
- short-term loans granted	28		271	271
3. Other outflows on investments				
III. Net cash flow from investments	-130 965	-80 516	-16 538	-12 460
C. Cash flow from financial activity				
I. Inflows	161 185	101 092	0	0
1. Credits and loans	161 180	101 087	0	0
2. Net inflows – issue of shares	5	5		
3. Other financial inflows				0
II. Outflows	52 818	50 218	28 051	31 440
1. Buy-back of treasury shares	48 744	47 469		
2. Repayment of credits and loans			25 269	29 992
3. Interest	4 074	2 749	2 782	1 448
4. Other financial outflows			0	0
III. Net cash flow from financial activity	108 367	50 874	-28 051	-31 440
D. Total net cash flow	-8 431	4 841	-3 332	511
E. Total cash flow balance, of which:	-8 431	4 841	-3 332	511
- change in cash – foreign exchange differences	62		0	10
F. Opening cash balance	25 013	11 741	18 147	14 304
G. Closing cash balance, of which:	16 582	16 582	14 815	14 815
- restricted cash	242	42	242	242

Notes to consolidated condensed financial statement for Q2 2008

1. Description of LPP S.A. Capital Group

LPP Capital Group (CG) is composed of:

- LPP S.A. – parent company,
- 19 Polish subsidiaries,
- 10 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 taking 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 Rep.	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	Peremyshliany, Ukraine	23.07.2003
26.	RE Trading Zamknięta Spółka Akcyjna	Moscow, Russia	12.02.2004
27.	LPP Fashion Distributor SRL	Bucharest, Romania	12.08.2007
28.	ES STYLE	Moscow, Russia	10.03.2008
29.	FASHION POINT	Moscow, Russia	01.04.2008

LPP S.A. holds direct control in its subsidiaries, i.e. 100% share in their share capital and 100% of the total number of votes.

The consolidated financial statement of the Capital Group covering the period from 1 January to 30 June 2008 covers 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 Distributor SRL.
- ES STYLE
- FASHION POINT

Polish subsidiaries of LPP S.A. were not consolidated as their financial data is immaterial. This is in line with the Accounting Policy employed by the Group.

Under this policy, a subsidiary or associate is not consolidated if results disclosed in the financial statement of this entity are immaterial compared to data disclosed in the financial statement 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 non-consolidated entities must not exceed this level, but established in relation to the corresponding amounts of the consolidated financial statement, based on the assumption that the statement covers all subsidiaries and associates with no exceptions (non-consolidation).

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

- in the Capital Group's balance sheet total – 0.66%
- in the Capital Group's revenues from sales and financial revenues – 4.42%

The fact that financial statements of these companies are not consolidated has no negative impact on 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 Poland. Clothing is basically the only product sold by the CG companies.

The basic 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 then sent to the purchasing department, which contracts the production of individual products in co-operation with production plants in Poland and abroad. Production in China is managed by the Company's trading office in Shanghai.

The Capital Group also 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.

2. Legal basis of the condensed consolidated financial statement and information on changes in the adopted accounting principles

Report of LPP Capital Group for Q2 FY08 contains condensed consolidated financial statement and selected notes to the financial statement contained in these Notes, as well as condensed individual financial statement of the parent company, as per IAS 34: Interim Financial Statements.

In all its material aspects, the accounting policy adopted in this report is in line with the policy underlying the consolidated annual financial statement of LPP Capital Group for FY07 drawn up as per the International Financial Reporting Standards (IFRS).

Condensed consolidated financial statement should be read together with the consolidated financial statement for the year ended on 31 December 2007.

3. Achievements of LPP S.A. Capital Group in the reporting period

Key achievements of LPP S.A. Capital Group in Q2 FY08 included:

1. Revenues from sales in Q2 FY08 totalled PLN 358 million, up by 21% compared to revenues generated in Q2 FY07 (PLN 297m).
Year to date, revenues generated from January to June 2008 totalled PLN 698m and were up by 24% vs. revenues generated in the previous corresponding period (PLN 563 m from January to June 2007).
2. Operating profit recorded in Q2 FY08 totalled PLN 47m. In the corresponding period of FY07, the Group generated operating profit of PLN 51m. Net profit for Q2 FY08 totalled PLN 35m (vs. PLN 39m in Q2 FY07).
3. Sales in Q2 FY08 totalled PLN 252.5m in Reserved stores and PLN 74.8m in CroppTown stores. Year to date, sales totalled PLN 491.5m in Reserved stores and PLN 145.7m in CroppTown stores (compared to PLN 217.7m and PLN 55.7m in Q2 FY07, respectively).
4. New outlets were opened in Q2 FY08 (about 12 thousand square meters), increasing the total retail area to about 160 thousand square metres (357 outlets), of which about 61 thousand square metres (119 outlets) abroad.
5. Revenues from sales in comparable outlets were up by 9% in Q2 FY08 (without taking account of local currency rate changes in countries where LPP Capital Group companies operate).

4. Factors and events, especially of extraordinary nature, with significant impact on the consolidated financial results

Costs were the main reason for the lower profit generated in Q2 FY08 when compared to the previous corresponding period. Costs of sales and general administrative expenses were up by 36%, exceeding the increase recorded for sales (+21%) and gross profit on sales (+23%). Increase in costs of sales and general administrative expenses of LPP S.A. (Poland) by +37% was of particular importance. The highest share in the increase in costs was recorded for the following expenses:

- a) salaries – up by 100% (+10m PLN) – significant increase in headcount, increase in average salary, April bonuses,
- b) marketing – up by 50% (+4m PLN),
- c) logistics – up by 70% (+3.7m PLN) – increased number of clothing items (up by 30%), lease of new storage areas, increase in prices of warehousing services related to an increase in remuneration of contractors.

Revenues from sales of products, goods and materials disclosed in the consolidated statement 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 in Q2 2008	% share of sales by country in Q2	revenues from sales in the period 01.01-30.06.2008	% share of sales by country in the period 01.01 - 30.06.2008
LPP S.A.	Poland	265 925	74.25%	524 337	75.14%
LPP Retail Estonia OU	Estonia	7 967	2.22%	15 497	2.22%
LPP Retail Latvia Ltd	Latvia	7 229	2.02%	13 630	1.95%
LPP Retail Czech Republic s.r.o.	Czech Rep.	21 736	6.07%	39 875	5.71%
LPP Hungary Kft.	Hungary	4 865	1.36%	8 606	1.23%
UAB"LPP"	Lithuania	8 589	2.40%	17 074	2.45%
LPP Ukraina AT	Ukraine	6 145	1.72%	11 605	1.66%
ZAO "Re Trading"	Russia	33 502	9.35%	64 991	9.31%
LPP Fashion Distributor SRL	Romania	2 017	0.56%	2 017	0.29%
Es Style Rosja	Russia	81	0.02%	81	0.01%
Fashion Point	Russia	80	0.02%	80	0.01%
Total		358 137	100.00%	697 793	100.00%

5. Explanation of seasonal or cyclical nature of the Capital Group's operations in the reporting period

Seasonality in sales of clothing is a feature characteristic for the clothing market as a whole – both in Poland and abroad. The second quarter is the time of regular sales of the spring and summer collection and seasonal discount sales which begin towards the end of June. As products are sold with small discounts almost throughout the entire second quarter, gross profit margin on sales for Q2 is higher than the annual average.

6. Segment reporting – revenues and results per segments

The Capital Group is involved in one type of business only (one core business segment). Two geographical segments have been identified: business in and outside the European Union. Division into geographical segments was based on the criterion of location of the Group's assets. Revenues and results per segments for 2 quarters FY08 and for the previous corresponding period are presented in section 23.7.

7. Issue, redemption and repayment of debt and equity securities

In Q2 FY08, increase of the Company's share capital by PLN 5,134 was registered the Local Court in Gdańsk. Share capital was increased 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 target capital to implement an incentive and performance scheme.

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

After the registration, the Company' share capital is PLN 3,412,134, including 1,706,067 shares carrying 3,106,067 votes at the AGM.

In addition, in Q2 FY08 the Extraordinary General Meeting of Shareholders of LPP S.A. adopted a resolution to increase the Company's share capital by PLN 800,000, from PLN 3,412,134 to PLN 3,492,134, by issuing 40,000 new series J ordinary bearer shares of per-share nominal value PLN 2.00. Series J shares shall be taken over in private subscription by three main shareholders and founders of Artman S.A.: Krzysztof Bajolek, Arkadiusz Bajolek, and Jan Pilch. Under the investment agreement signed on 13 June 2008 (RB36/2008) by and between LPP S.A. and Artman S.A. on the one part, and the above shareholders of Artman S.A. on the other part, LPP S.A. shall announce a call for 100% shares of Artman S.A. The said resolution shall come into effect provided that LPP S.A. takes over 3,000,648 shares held by the above majority shareholders of Artman S.A., representing 70.4% of the company's share capital. The Management Board of LPP S.A. intends to merge both companies.

In Q2 FY08, LPP S.A. Capital Group bought back treasury shares (RB no. 16/2008, 22/2008, 24/2008, 26/2008, 27/2008, 34/2008). The intention to buy back treasury shares of LPP S.A. was announced by the Management Board in the current report no. 12/2008.

The Management Board plans to develop LPP S.A. Capital Group based on acquisitions of other entities, and 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.

During the buy-back of treasury shares and until the date of publication of this report, the Company bought back 21,398 treasury shares, representing 1.25% of its share capital and carrying 21,398 of votes at the Company's AGM, i.e. 0.69% of the total vote.

8. Dividend paid (or declared), in total and per one share, broken down into ordinary shares and other shares

No dividend was paid (or declared) in LPP S.A. Capital Group.

9. Date of approval of the financial statement for publication

This financial statement was approved for publication (authorised for issue) by the Management Board of the parent company on 11 August 2008.

10. Events after the balance sheet date not presented in the financial statement, which may have significant impact on the future financial results of LPP S.A. Capital Group

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 statement is authorised for issue (i.e. approved for publication).

After the balance sheet date, there have been no events which could have any significant impact on the Capital Group's future financial results.

11. Effects of changes in the Capital Group's structure, including business combination (mergers), takeovers or disposals of Capital Group companies, long-term investments, as well as division, restructuring and discontinuation of business operations

In Q2 FY08, there were no changes in the Capital Group's structure, including business combination (mergers), takeovers or disposals of Capital Group companies, long-term investments, or division, restructuring and discontinuation of business operations.

12. Changes in contingent liabilities or contingent assets after the end of the previous financial year

In Q2 FY08, LPP S.A. and its subsidiaries used bank guarantees to secure payment of rent for the leased retail premises where brand stores are located.

As at 30 June 2008, the total value of bank guarantees granted at the request of and on the responsibility of LPP S.A. amounted to PLN 60,668 k, of which:

- a) guarantees granted to secure agreements concluded by LPP S.A. – PLN 8,105k
- b) guarantees granted to secure agreements concluded by consolidated related parties – PLN 34,259k
- c) guarantees granted to secure agreements concluded by non-consolidated related parties – PLN 17,952k
- d) guarantees granted to secure agreements concluded by third parties – PLN 123k
- e) guarantees granted to secure agreements of lease of office and storage spaces concluded by LPP S.A. – PLN 229k.

As at 30 June 2008, the total amount of all sureties issued by the parent company was PLN 10,833k, up by PLN 1,993k vs. 31 December 2007.

13. Estimated future liabilities arising from retail lease agreements

Capital Group companies are parties to retail lease agreements on the use of retail premises where Cropp and Reserved brand stores are located.

Total future minimum payments under lease agreements, estimated as at 30 June 2008, are as follows:

- | | |
|---|--------------|
| - payables with the maturity date within 12 months from the balance sheet date | PLN 128,941k |
| - payables with the maturity date from 12 months to 5 years from the balance sheet date | PLN 318,989k |
| - payables with the maturity date over 5 years from the balance sheet date | PLN 52,643k |

14. The Management Board's opinion on the feasibility of annual consolidated results forecast

No forecasts were published by the Company for FY 2008.

15. Shareholders holding at least 5% of votes at the General Meeting of Shareholders of LPP S.A. as at the date of submission of the quarterly report, directly or indirectly through subsidiaries, and changes in the structure of ownership of large blocks of LPP S.A. shares after the date of submission of the previous quarterly report

Shareholding structure of the parent company as at the date of submission of the quarterly report for Q1 FY08:

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	32.98%	19.01%
Jerzy Lubianiec	226 338	926 338	29.82%	13.27%
Grangefont Limited	350 000	350 000	11.27%	20.52%

Changes in shareholding structure since the date of submission of the previous quarterly report are presented in the following tables.

These changes resulted mainly from the increase in the Company's share capital (current report RB 29/2008 dated 02-06-2008) and acquisition of 405 shares by Mr Marek Piechocki under the incentive scheme implemented by the Company (current report no. RB 33/2008 dated 03-06-2008).

1)

Marek Piechocki	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
as at: 13.05.2008	323 985	1 023 985	32.99%	19.02%
12.08.2008	324 390	1 024 390	32.98%	19.01%

2)

Jerzy Lubianiec	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
as at 13.05.2008	226 338	926 338	29.85%	13.29%
12.08.2008	226 338	926 338	29.82%	13.27%

3)

Grangefont Limited	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
as at 13.05.2008	350 000	350 000	11.28%	20.55%
12.08.2008	350 000	350 000	11.27%	20.52%

16. Structure of ownership of LPP S.A. shares or rights to shares (options) held by members of the Issuer's Management Board and Supervisory Board as at the date of submission of the quarterly report, including changes in the shareholding structure from the date of submission of the previous quarterly report, separately for each member of the Management Board and the Supervisory Board

Shareholder	Number of shares held	Number of votes at the General Meeting of Shareholders
President of the Management Board	324 390	1 024 390
Vice-President of the Management Board	5 954	5 954
Vice-President of the Management Board	2 225	2 225

Vice-President of the Management Board	2 664	2 664
Vice-President of the Management Board	2 341	2 341
Chairman of the Supervisory Board	226 338	926 338

In the reporting period, the structure of LPP S.A. shares held by members of the Issuer's Management Board and Supervisory Board changed as specified in current reports no. RB 25/2008 dated 21 May 2008 (disposal of 400 shares of LPP S.A. by the Vice-President of the Management Board of LPP S.A.), and RB 33/2008 dated 3 June 2008 (acquisition of the Company's shares under the incentive scheme).

17. Information on legal proceedings in progress

In the Capital Group, only LPP S.A. is a party in legal proceedings, claiming the settlement of receivables from its business partners. The total amount claimed does not exceed 10% of the Company's equity.

18. Related-party transactions in excess of EURO 500,000 concluded by the Issuer

No such transactions were concluded in the reporting period.

19. Related-party transactions

19.1. Key management personnel

The Capital Group's key management personnel include members of the Management Board and Supervisory Board of LPP S.A.

The amount of short-term employee benefits paid to the key management personnel in the period from 1 January to 30 June 2008 totalled PLN 952k, of which PLN 946k paid to members of the Management Board and PLN 6k paid to a member of the Supervisory Board for services other than work in the Supervisory Board.

19.2. Related party transactions

In the reporting period, the Issuer did not enter into any related-party transactions related to assignment of rights and obligations.

Transactions between the parent company and its foreign subsidiaries were eliminated from the consolidated financial statement and are not presented in the table.

Amounts presented in the table below 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 in the table is in PLN '000

No.	related parties	receivables as at 30.06.08	payables as at 30.06.08	revenues for the period January- June 2008	expenses for the period January- June 2008
1	Polish subsidiaries	365	2 680	50	30 756
	Total	365	2 680	50	30 756

Data presented as payables of LPP S.A. are receivables in related parties, and costs 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.

20. Information on guarantees and sureties granted

In the reporting period, the Capital Group companies granted no sureties or guarantees for credits or loans of the total value equalling at least 10% of the Issuer's equity.

21. Additional information relevant for the assessment of the financial standing, assets, human resources, and financial result of LPP S.A. Capital Group, and any changes thereof, as well as information relevant for the assessment of Capital Group's repayment ability

The report presents basic information relevant for the assessment of the Capital Group's financial standing. According to the Management Board, there are currently no threats for the Capital Group's repayment ability.

22. Factors likely to influence results generated by LPP S.A. Capital Group in the next quarter or afterwards (according to LPP S.A.)

Basic factors likely to influence results generated in the nearest future are as follows:

1. developments of the retail market in Poland and in countries where the Capital Group companies operate,
2. sales of the autumn and winter collection,
3. development of the Reserved and Cropp Town network;
4. exchange rate of PLN against USD and EURO,
5. actions taken to reduce costs, including: reduced growth in headcount in the Headquarters, opening a new, high-efficiency logistics centre (planned for September), implementing only the most effective marketing projects.

23. Notes to the condensed consolidated financial statement

23.1 Tangible fixed assets (Property, Plant & Equipment)

The amount of tangible fixed assets presented in the consolidated financial statement drawn up as at 30 June 2008 includes an adjustment related to a write-down of PLN 1,273 k.

The amount of payments on account of acquisition of tangible fixed assets as at 31 March 2008 was PLN 12,385k.

Changes in amounts related to tangible fixed assets in the period from 1 January to 30 June 2008 were as follows:

	in PLN '000
As at 1 January 2008	258 334
Increase	181 276
Reduction	-51 619

Foreign exchange differences	1 651
Depreciation	-28 823
As at 30 June 2008	360 819

23.2 Inventories

The amount of inventories presented in the consolidated financial statement drawn up as at 30 June 2008 includes a write-down of PLN 4,776k.

23.3 Receivables

The amount of receivables presented in the consolidated financial statement drawn up as at 30 June 2008 includes an adjustment related to a write-down of PLN 4,721k.

This write-down includes:

revaluation write-down of receivables and claimed receivables from business partners	PLN 2,977 k
revaluation write-down of the so-called doubtful receivables	PLN 1,574k
revaluation write-down of receivables from employees and other	PLN 170k

Changes in receivables write-down in the reporting period were as follows:

as at 31 December 2007	PLN 5,106k
write-downs made between 1 January and 30 June 2008	PLN 940k
reduction of write-downs in previous years	PLN 1,098k
reduction of write-downs in the period 01.01-30.06.2008	PLN 227k
as at 30 June 2008	PLN 4,721k

23.4 Provisions

The amount of provisions presented in the consolidated financial statement drawn up as at 30 June 2008 totals PLN 8,164k and includes:

- provision for retirement severance payments:	PLN 831k
- provision for holiday leaves not taken:	PLN 2,583k
- provision for deferred income tax:	PLN 4,750k.

23.5 Income tax

Income tax presented in the consolidated profit and loss account for the period between 1 January and 30 June 2008 amounts to PLN 10,947k and includes:

- current tax	PLN 15,572k
- deferred tax	PLN (4,625k)

23.6 Foreign exchange differences

The consolidated Profit and Loss Account as at 30 June 2008 presents an excess of deductible foreign exchange differences over taxable foreign exchange differences of PLN 5,117k.

23.7 Segment reporting

Revenues and financial results of geographical segments for the period from 1 January 2008 to 30 June 2008, as well as for the comparative period, are presented in the following tables.

	in PLN '000				
	Member States of the European Union	Other countries	Consolidation adjustments	Amounts not allocated to segments	Total
External sales	621 036	76 757			697 793
Intersegment sales	40 578		-40 578		-
Other operating revenues	2 840	149		44	3 033
Total revenues	664 454	76 906	-40 578	44	700 826
Total operating expenses, of which:	544 444	71 467	-39 576		576 335
Costs of intersegment sales	30 402		-30 402		-
Other operating expenses	7 842	529		43 882	52 253
Segment result	112 168	4 910	-1 002	-43 838	72 238
Financial revenues				1 627	1 627
Financial expenses				10 020	10 020
Profit before tax					63 845
Income tax					10 947
Net profit					52 898

FY 2007

in PLN '000

	Member States of the European Union	Other countries	Consolidation adjustments	Amounts not allocated to segments	Total
External sales	507 949	55 517			563 466
Intersegment sales	22 125		-22 125		-
Other operating revenues	2 154	2		46	2 202
Total revenues	532 228	55 519	-22 125	46	565 668
Total operating expenses, of which:	431 247	55 328	-22 547		464 028
Costs of intersegment sales	16 258		-16 258		-
Other operating expenses	6 201	802		28 738	35 741
Segment result	94 780	-611	422	-28 692	65 899
Financial revenues				1 227	1 227
Financial expenses				5 823	5 823
Profit before tax					61 303
Income tax					11 059
Net profit					50 244

24. Additional information to the separate statement of LPP S.A.

Based on the estimation of the carrying amount of assets invested in foreign subsidiaries, in the period from January to June 2008, write-downs of the following elements of assets of the individual balance sheet: shares, additional paid-in capital, loans, and receivables, were changed. These write-downs were also recognised under financial and operating expenses and revenues in the individual Profit and Loss Account. As a result, assets were down by PLN 1,073k.

This change was recognised under relevant items of the separate statement of LPP S.A. and has no influence on amounts presented in the consolidated statement.