LPP S.A. CAPITAL GROUP

Report for H1 FY 2006.

Containing:

1. The Management Board's statement as per requirements of the Ordinance of the Polish Council of Ministers of 19 October 2005 on current and interim information provided by issuers of securities,
2. Consolidated interim financial statement for the period from 1 January 2006 to 30 June 2006,
3. Half-year Management Board report on operations of LPP S.A. Capital Group,
4. The Management Board's statement as per requirements of the Ordinance of the Polish Council of Ministers of 19 October 2005 on current and interim information provided by issuers of securities,
5. Condensed interim financial statement for the period from 1 January 2006 to 30 June 2006.

September 2006

STATEMENT OF THE MANAGEMENT BOARD

Pursuant to provisions of the Ordinance of the Council of Ministers of 19 October 2005 on current and interim information provided by issuers of securities, the Management Board of LPP S.A. hereby declares that:

- to the best of the Board's knowledge, the half-year consolidated financial statement and comparative data has 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 Management Board's half-year consolidated report presents a true and fair view of the development and achievements of LPP Capital Group, including an accurate description of risks and threats,

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

The Management Board of LPP S.A.:

Marek Piechocki ....

Alicja Milińska ....

Dariusz Pachla ....

Stanisław Dreliszak ....

Aleksander Moroz ....

Gdańsk, 25 September 2006

Interim consolidated financial statement for the period from 1 January 2006 to 30 June 2006

1. Selected consolidated financial data

Selected consolidated financial data	H1 2006 01/01/2006- 30/06/2006 in PLN '000	H1 2005 01/01/2005- 30/06/2005	H1 2006 01/01/2006- 30/06/2006 in EUR '000	H1 2005 01/01/2005- 30/06/2005
Net revenues from sales of products, goods and materials	324 742	304 903	83 263	74 722
Operating profit (loss)	-10 867	26 467	-2 786	6 486
Profit (loss) before tax	-8 155	21 882	-2 091	5 363
Net profit (loss)	-7 808	16 162	-2 002	3 961
Net cash flow from operations	15 853	15 021	4 065	3 681
Net cash flow from investments	-26 549	-42 540	-6 807	-10 425
Net cash flow from financial activity	-1 814	24 369	-465	5 972
Total net cash flow	-12 510	-3 150	-3 208	-772

Selected consolidated financial data	H1 2006 01/01/2006- 30/06/2006 in PLN '000	H1 2005 01/01/2005- 30/06/2005	H1 2006 01/01/2006- 30/06/2006 in EUR'000	H1 2005 01/01/2005- 30/06/2005
Total assets	447 854	380 927	110 762	94 287
Long-term payables	15 373	5 164	3 802	1 278
Short-term payables	208 015	167 763	51 446	41 524
Equity	223 930	207 342	55 382	51 321
Share capital	3 407	3 407	843	843
Number of shares	1 703 500	1 703 500	1 703 500	1 703 500
Profit (loss) per ordinary share (EPS) (in PLN/EURO)	-4.58	9.49	-1.18	2.33
Book value per share – BVPS (in PLN/EURO)	131.45	121.72	32.51	30.13

data in PLN '000

2. Consolidated balance sheet

Balance sheet	Notes	as at the end of:		
		30/06/2006	30/06/2005	31/12/2005
ASSETS				
Fixed assets		*206 286*	*165 100*	*195 431*
1. Tangible fixed assets (PP&E)	14.1	184 698	145 155	175 138
2. Intangible assets	14.2	14 684	14 319	14 436
3. Investments	14.3	880	927	876
4. Receivables		393	199	187
5. Deferred income tax assets	14.18	5 542	3 758	4 356
6. Prepaid expenses	14.15	89	742	438
Current assets		*241 568*	*215 827*	*239 305*
1. Inventories	14.5	173 676	171 508	171 566
2. Trade and other receivables	14.6	50 233	29 213	37 653
3. Prepaid expenses	14.15	2 728	2 671	2 604
3. Investments	14.3	75	93	116
5. Cash and cash equivalents	14.7	14 856	12 342	27 366
TOTAL assets		***447 854***	***380 927***	***434 736***

data in PLN '000

	Notes	30/06/2006	30/06/2005	31/12/2005
LIABILITIES				
Equity		*223 930*	*207 342*	*232 450*
1. Share capital	14.8	3 407	3 407	3 407
2. Reserve capital	14.8	232 266	199 319	200 368
3. Other reserves		82	1	
4. Retained profit/accumulated loss brought forward from previous years		-3 803	-11 851	-11 851
5. Net profit/loss of the reporting period		-7 808	16 162	40 053
6. Revaluation reserve			0	1
7. Foreign exchange differences (conversion of related parties)		-214	304	472
Long-term payables		*15 373*	*5 164*	*15 058*
1. Bank credits and loans	14.13	11 000	1 711	11 000
2. Provisions	14.10	325	290	287
3. Deferred income tax provision	14.18	4 026	3 128	3 733
4. Other long-term payables		22	35	38
Short-term payables		*208 015*	*167 763*	*186 216*
1. Trade and other payables	14.14	76 313	65 579	56 134
2. Bank credits and loans	14.13	130 096	99 991	126 562
3. Income tax		29	956	2 451
4. Provisions	14.10	1 257	915	928
5. Special funds		320	322	141
Accruals and deferred income		*536*	*658*	*1 012*
TOTAL liabilities		***447 854***	***380 927***	***434 736***

Book value	223 930	207 342	232 450
Number of shares	1 703 500	1 703 500	1 703 500
Book value per share – BVPS (in PLN)	131.45	121.72	136.45

data in PLN '000

3. Consolidated profit and loss account

Consolidated profit and loss account	Notes	Current year 01/01/2006- 30/06/2006	Previous year 01/01/2005-30/06/2005
Revenues from sales	14.16	324 742	304 903
Selling costs		154 906	134 829
Profit/loss on sales before tax		*169 836*	*170 074*
Other operating revenues	14.16	2 208	2 186
Costs of sales		155 660	123 276
General administrative expenses		22 721	19 007
Other operating expenses	14.17	4 530	3 510
Operating profit (loss)		*-10 867*	*26 467*
Financial revenues	14.16	6 285	529
Financial expenses	14.17	3 573	5 114
Profit/loss before tax		*-8 155*	*21 882*
Taxes	14.18	-347	5 720
Net profit/ loss		***-7 808***	***16 162***
Weighted average number of ordinary shares		1 703 500	1 703 500
Profit (loss) per ordinary share (EPS) (in PLN)		(4.58)	9.49

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

data in PLN '000

4. Statement of changes in equity

	Share capital	Reserve capital	Other reserves	Retained profit/accumulated loss brought forward from previous years	Net profit/loss of the reporting period	Foreign exchange differences (conversion of related parties)	TOTAL equity
As at 1 January 2005	3 407	151 236	1	36 184	0	-9	190 819
- corrections of errors from previous years				48			48
As at 1 January 2005 (corrected)	3 407	151 236	1	36 232	0	-9	190 867
Foreign exchange differences after conversion of related parties						313	313
Distribution of 2004 profit		48 083		-48 083			0
Net profit for H1 2005					16 162		16 162
As at 30 June 2005	3 407	199 319	1	-11 851	16 162	304	207 342
As at 1 January 2006	3 407	200 368	1	28 202	0	472	232 450
- corrections of errors from previous years				-26			-26
As at 1 January 2006 (corrected)	3 407	200 368	1	28 176	0	472	232 424
Foreign exchange differences after conversion of						-686	-686

data in PLN '000

related parties							
Distribution of 2005 profit		31 897	82	-31 979			0
Net loss for H1 2006					-7 808		-7 808
As at 30 June 2006	3 407	232 265	83	-3 803	-7 808	-214	223 930

data in PLN '000

5. Consolidated cash flow statement

Consolidated cash flow statement	01/01/2006- 30/06/2006	01/01/2005-30/06/2005
A. Cash flow from operations – indirect method		
I. Net profit (loss)	-7 808	16 162
II. Total adjustments	23 661	-1 141
1. Depreciation	19 701	13 551
2. Foreign exchange (gains) losses	-75	1 163
3. Interest and share in profits (dividends)	1 584	2 213
4. (Profit) loss from investments	263	244
5. Income tax paid	-7 191	-8 761
6. Income tax charged to result before tax	-347	5 721
7. Change in provisions	316	288
8. Change in inventories	-1 169	-39 528
9. Change in receivables	-12 738	-4 393
10. Change in short-term payables, excluding credits and loans	23 655	28 827
11. Change in prepaid expenses, accruals and deferred income	-188	-100
12. Other adjustments	-150	-366
III. Net cash flow from operations (I+/-II)	15 853	15 021
B. Cash flow from investments		
I. Inflows	1 503	292
1. Sale of intangible assets and tangible fixed assets	248	233
2. From financial assets, including:	1 255	58
a) in related parties	1 137	0
- dividends and share in profits	1 137	
b) in other entities	118	58
- interest	8	6
- repayment of short-term loans granted	36	29
- repayment of long-term loans granted		23
- other inflows from financial assets	74	
3 . Other inflows from investments		1

data in PLN '000

II. Outflows	28 052	42 832
1. Acquisition of intangible assets and tangible fixed assets	28 052	42 650
2. On financial assets, including:	0	76
a) in related parties	0	76
- acquisition of shares, additional paid-in capital		76
b) in other entities	0	0
- acquisition of financial assets		
3. Other outflows on investments		106
III. Net cash flow from investments (I-II)	-26 549	-42 540
C. Cash flow from financial activity		
I. Inflows	3 050	28 114
1. Credits and loans	3 050	28 076
2. Other financial inflows		38
II. Outflows	4 864	3 745
1. Repayment of credits and loans	1 797	789
2. Payments related to finance lease agreements		24
3. Interest	3 067	2 550
4. Other financial outflows		382
III. Net cash flow from financial activity (I-II)	-1 814	24 369
D. Total net cash flow (A.III+/-B.III+/-C.III)	**-12 510**	**-3 150**
E. Total cash flow balance, including:	**-12 510**	**-3 150**
- change in cash – foreign exchange differences	-175	-342
F. Opening cash balance	**27 366**	**15 492**
G. Closing cash balance (F+/-D), including:	**14 856**	**12 342**
- restricted cash	259	62

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENT OF LPP CAPITAL GROUP FOR H1 2006

INTRODUCTION

1. General information

Name and registered office:	GRUPA KAPITAŁOWA LPP (LPP CAPITAL GROUP)
Parent company:	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".

Place of business
The Group is running its business in the following countries:
- Poland,
- Estonia,
- the Czech Republic,
- Lithuania,
- Latvia,
- Hungary,
- Russia,
- Ukraine.

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

data in PLN '000

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
- Andrzej Puślecki - member of the Supervisory Board

3. Description of LPP Capital Group

LPP Capital Group (CG) is composed of:
- - LPP S.A. – parent company,
- - 19 Polish subsidiaries,
- - 7 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	Peremyshlany, Ukraine	23.07.2003
26.	RE Trading Zamknięta Spółka Akcyjna	Moscow, Russia	12.02.2004

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

The consolidated financial statement of the Capital Group covering the period from 1 January to 30 June 2006 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.

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, which represented less that 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.
Share of all non-consolidated Polish subsidiaries in consolidated results is as follows:

- in the Capital Group's balance sheet total – 0.49 %
- in the Capital Group's revenues from sales and financial revenues – 6.41 %.

The fact that financial statements of these companies are not consolidated has no negative impact on 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. 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 estate where Cropp Town and Reserved outlets are located.

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

Under 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 the Capital Group shall present the consolidated financial statement drawn up as per 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 periods starting before 1 January 2005 were prepared based on the Accounting Act and its implementing provisions.

The Capital Group prepared its consolidated report for FY 2006 in line with the Ordinance of the Polish Minister of Finance of 19 October 2005 on current and interim information provided by issuers of securities. The report contains the Group's consolidated financial statement and the individual financial statement of LPP S.A. The report was drawn up as per IFRS.

This consolidated financial statement was drawn up in PLN.

5. Declaration of compliance with IFRS

This consolidated financial statement has been drawn up in line with the International Financial Reporting Standards (IFRS) approved by the European Union, covering standards and interpretations approved by the International Accounting Standards Board and International Financial Reporting Standards Interpretation Committee.

6. Going concern assumption

The consolidated financial statement for H1 FY 2006 was drawn up based on the assumption that the Issuer and its Capital Group 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 of the financial statement, the going concern assumption adopted in this financial statement is fully justified.

7. Date of approval of the financial statement for publication

This financial statement was approved for publication by the Management Board of the parent company of LPP Capital Group on 25 September 2006.

8. Events after the balance sheet

As per IAS 10, events after the balance sheet date include all events that occurred between the balance sheet date and the date that 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 a material impact on the Capital Group's future financial results, nor any other events which should be taken into account or disclosed separately in this financial statement as per IFRS.
The Management Board is authorised to adjust the financial statement after its publication.

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 (PP&E) 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 tangible fixed assets 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 the profit and loss account when incurred.
As at the balance sheet date, tangible fixed assets are measured at cost less depreciation and impairment losses.
The Capital Group's depreciation write-offs are made on a straight-line basis. Tangible fixed assets (PP&E) are depreciated over the asset's expected useful life verified on an annual basis.
PP&E is 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 threshold amounts for one-off depreciation of PP&E or non-inclusion of an asset in PP&E are equal to tax threshold amounts.
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 have been 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 threshold amounts 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 adopted in justified cases if all the following circumstances occur simultaneously:

- many fixed assets are purchased at the same time and their unit price is not in excess of the threshold amount, 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 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 related to investments into the construction and furnishing of new Reserved and Cropp brand stores – implementation of a new plan 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 in 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 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. For the measurement of the parent company's imported goods in transit, selling exchange rate published by Raiffeisen Bank Polska S.A. as at the balance sheet date is adopted (in the case of foreign companies – selling rate published by banks with which these companies usually co-operate (i.e. banks with the highest volume of transactions with the company) or average exchange rate of the central bank).

Inventories whose trading or useful value is impaired are written down. Inventory revaluation losses 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,

Sformatowane: Punktory i numeracja

- doubtful receivables from a large group of small customers of underwear (overdue more than 6 months) – 30% of the amount receivable,
- doubtful receivables from other customers (overdue more than 6 months) – the debtor's financial situation is analysed in detail and if there is any reasonable doubt that the amount may be irrecoverable, a write-down is made for 100% of the amount receivable,
- other receivables – write-downs are made based on a case-by-case analysis and assessment of the situation and risk of potential loss.

Sformatowane: Punktory i numeracja

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

Sformatowane: Punktory i numeracja

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

Reserve capital

Sformatowano

The amount presented under Reserve Capital includes:
- share premium – issue of shares at the price exceeding their nominal value less costs of issue,
- profits brought 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 brought forward)

Sformatowano

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

Liabilities
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 Group 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 correction of the estimated cost of these returns. Based on our experience to date, the ratio of product return has been estimated against the 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:
    - elements of assets – at the Company's bank purchase rate adopted as at this date,
    - elements of 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.

Government 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 ordinary shares are not diluted.

Share-based payment

No share-based payment programme was implemented in the reporting period.

Hyperinflation

Under provisions of IAS 29 *Financial Reporting in Hyperinflationary Economies,* entities running their business 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 is justified, taking into account that it refers to events which occurred eight years ago or earlier, and the corresponding earnings had been distributed before this financial statement was drawn up. In addition, it is not clear whether such disclosure of the hyperinflationary restatement has any effects 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 2005 could be misleading for users of this financial statement, and decided to present relevant amounts, ratios, and conversion methods related to the hyperinflationary restatement in Note 14.8 to the financial statement.

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., mature as at the balance sheet date.

10. Financial risk management

The key financial risks for the Capital Group's business activity are as follows:

a) currency risks
The majority of transactions related to trading commodities purchased by LPP SA CG involve payments denominated in foreign currencies (mostly in USD, a small portion in EURO).

Usunięto: ¶

Usunięto: Jednocześnie w ustawie o rachunkowości, aktywa pieniężne zostały zdefiniowane jako: krajowe środki płatnicze, waluty obce, dewizy oraz inne aktywa finansowe

Usunięto: Zgodnie z ustawą o rachunkowości, aktywa pieniężne obejmują więc takie pozycje bilansu jak:¶
<nr>inne aktywa finansowe (A. IV. 3 a i b oraz B.III.1a i b)¶
<nr>środki pieniężne i inne aktywa pieniężne (w tym: środki pieniężne w kasie i na rachunkach, inne środki pieniężne oraz inne aktywa pieniężne; B.III.1 c).¶
¶

Usunięto: <nr>memoriałowo naliczone odsetki od aktywów finansowych, o terminie płatności nie dłuższym niż 3 miesiące od daty naliczenia, i nie wymagalne na dzień bilansowy (wykazywane w bilansie w pozycji „Inne krótkoterminowe aktywa finansowe"),¶

Sformatowane: Punktory i numeracja

data in PLN '000

Variability of the exchange rate of these currencies against PLN, which in turn is the currency of the majority of the Group's transactions of sale, are immaterial – according to the Management Board, it is unlikely to affect the Capital Group's results.
Given the specific type of the Group's business, it is possible to partially pass the risk of 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 transactions denominated in foreign currencies, there is yet another area where the Group's expenses may be affected by the EURO exchange rates: the majority of settlements related to contracts of lease of commercial premises where products are sold on the retail market. The above opinion of the Management Board on the immaterial impact of currency exchange rate variability applies also to the settlements under contracts of lease.

b) interest rate risks
Interest rate risks are related to bank credits utilised by the Capital Group on a regular basis, as well as loans granted by the Group (on a small scale). Bank credits with floating interest rate create cash flow risk. As interest rates for the Polish currency are reduced, the Management Board of LPP S.A. decided to use bank credits denominated in PLN to a greater extent. The Management Board believes that interest rate changes will have no significant impact on the Capital Group's results.
Fair value risk related to financial assets with fixed interest rate is insignificant and applies only to loans granted by LPP S.A. to Polish third-party entities (not related parties) in the total amount of PLN 237 k.

c) credit risk

Credit risk is related mainly to trade receivables, in the amount disclosed in the balance sheet, as well as guarantees granted to third parties.
The maximum credit risk is reflected by the carrying amount of loans and receivables.

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	16.8%
Customer 2	7.7%
Other with debts representing less than 5% in the total amount of receivables	75.5%
Total net trade receivables	100.0%

As at 30 June 2006, the total value of bank guarantees granted at the request of and on the responsibility of LPP S.A. amounted to PLN 53,599.8 k, of which:

- guarantees granted to secure agreements concluded by LPP S.A. – PLN 6,861.9 k
- guarantees granted to secure agreements concluded by consolidated related parties – PLN 30,268,1 k
- guarantees granted to secure agreements concluded by non-consolidated related parties – PLN 16,215.1 k
- guarantees granted to secure agreements concluded by third parties – PLN 254.7 k

As at 30 June 2006, the total amount of all sureties issued by the parent company totalled PLN 5,612 k, up by PLN 1,100 k compared to 31 December 2005.

No hedging instruments for the above financial risks and no hedge accounting are used by the Capital Group.

11. Critical accounting estimates and judgments

Estimates having an impact on the amounts disclosed in the financial statement refer to:

- the estimated economic useful life of property, plant and equipment,
- the percentage ratio used to determine the amount of future returns of goods sold in the reporting period,
- assets revaluation write-downs,
- discount rate for 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 residual value of property, plant and equipment, as well as intangible assets.

Sformatowane: Punktory i numeracja

The methodology employed by the Capital Group is based on the best knowledge of the Management Board and is in line with requirements of IFRS.
Methods of determination of 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 rates, 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.

Sformatowane: Punktory i numeracja

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

- the estimated economic useful life of property, plant and equipment – one change: estimated useful life of the goods sorting system was extended by one year,
- sales adjustment ratio related to returns of goods made in the next reporting period.

Sformatowane: Punktory i numeracja

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

12. Principles of consolidation

Sformatowane: Punktory i numeracja

The consolidated financial statement 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 financial statement preparation as the parent company.
The consolidated financial statement of the Capital Group includes relevant data from the statement of the parent company and statements of foreign subsidiaries denominated in the local currency of their respective countries, converted into PLN based on the following principles:

- individual items under 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;
- individual 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;
- individual 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 taken over 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;

- profit (loss) brought 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.

Adjustments and non-consolidation:

- share in equity of subsidiaries held by the parent company – non-consolidated;
- inter-company payables and receivables – non-consolidated;
- revenues and expenses related to the Capital Group inter-company sale and purchase transactions – non-consolidated;
- adjustments of unrealised profits related to the Capital Group's inventory of assets;
- interest on loans granted by the parent company to its subsidiaries (excluded from financial revenues and expenses);
- adjustments of the Capital Group's financial result related to deferred income tax on account of interest on loans and statistical foreign exchange differences as at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENT

14. Additional notes

Sformatowane: Punktory i numeracja

Usunięto: 3

14.1 Tangible fixed assets (PP&E)

Usunięto: 3

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

- buildings, facilities and civil- and hydro-engineering structures: 5 – 33%,
- plant and machinery: 7 – 50%
- transport vehicles: 14 – 33%,
- other tangible fixed assets: 14 – 50%.

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

In addition, write-downs of PLN 329 k made previously were reversed in the reporting period, as economic benefits resulting from the disposal of PP&E were higher that assumed.

Compensations related to tangible fixed assets received by the Group in H1 2006 amounted to PLN 178 k and were related mainly to the vehicle-related damage.

The Group has idle PP&E (temporarily out of use) with the initial carrying amount of PLN 967 k.

PP&E used by the Group is fully depreciated. Its initial carrying amount is PLN 4,650 k.

As at the balance sheet date, no restricted ownership or encumbrances were established on the Group’s PP&E.

As at 30 June 2006, the Group’s contractual obligation related to the purchase of tangible fixed assets totalled PLN 580 k.

As at 30 June 2006, the Group had no tangible fixed assets held for sale or discontinued operations.

The Company 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 & EQUIPMENT (by groups) as at 30 June 2006 — 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	11 838	149 917	41 750	4 802	21 556	4 123	172	234 158
- foreign exchange differences		1 487	660	21	- 113	126	7	2 188
- increase	499	16 661	4 857	125	5 278	18 928	772	47 120
- decrease	0	1 457	1 205	94	366	20 291	164	23 577
2) gross closing balance of PP&E	12 337	166 608	46 062	4 854	26 355	2 886	787	259 889
3) opening balance accumulated depreciation	0	34 562	15 706	2 048	5 138	0	0	57 454
- foreign exchange differences	0	219	33	6	-13	0	0	245
- depreciation	0	10 985	4 644	409	2 317	0		18 355
- foreign exchange differences		77	64	1	6			148
- decrease	0	1 040	1 005	64	139	0	0	2 248
4) closing balance accumulated depreciation	0	44 803	19 442	2 400	7 309	0	0	73 954
5) opening balance impairment losses	0	1 566	0	0	0	0	0	1 566
- increase	0	0	0	0	0	0	0	0
- decrease	0	329	0	0	0	0	0	329
6) closing balance impairment losses	0	1 237	0	0	0	0	0	1 237
Total net closing balance of PP&E	12 337	120 568	26 620	2 454	19 046	2 886	787	184 698

CHANGES IN PROPERTY, PLANT AND EQUIPMENT (by groups) as at 31 December 2005 — 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	1 117	81 723	17 974	2 609	8 681	4 837	664	116 605
- foreign exchange differences		19 670	8 298	1 711	2 165	-33	-136	31 675
- increase	10 721	51 770	16 405	999	11 075	68 351	1 283	160 603
- decrease	0	3 246	926	517	365	69 032	1 639	75 725
2) gross closing balance of PP&E	11 838	149 917	41 751	4 802	21 556	4 123	172	234 158
3) opening balance accumulated depreciation	0	19 176	8 794	1 754	2 267	0	0	31 991
- depreciation	0	16 768	7 520	718	3 080	0		28 086
- decrease	0	1 382	608	424	209	0	0	2 623
4) closing balance accumulated depreciation	0	34 562	15 706	2 048	5 138	0	0	57 454
5) opening balance impairment losses	0	1 196	0	0	0	0	0	1 196
- increase	0	806	0	0	0	0	0	806
- decrease	0	436	0	0	0	0	0	436
6) closing balance impairment losses	0	1 566	0	0	0	0	0	1 566
Total net closing balance of PP&E	11 838	113 789	26 045	2 754	16 418	4 123	172	175 138

Impairment losses – items in the P&L account	amount
- increase – "Revaluation of non-financial assets"	806
- reversal – "Other operating revenues"	43

data in PLN '000

Impairment losses – items in the P&L account in H1 2006	amount
- increase – "Revaluation of non-financial assets"	0
- reversal – "Other operating revenues"	0

14.2 Intangible assets

Sformatowane: Punktory i numeracja

The Group has intangible assets constructed in the Capital Group companies. They include development works amounting to PLN 197 k net as at the balance sheet date.
There is no goodwill, i.e. surplus of price paid for shares over the value of acquired net assets of each subsidiary, established as at the date of taking control.
The Group has no intangible assets with unspecified useful life.

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

- costs of completed development works (development costs): 33%
- acquired patents, licenses and similar rights: 650%

Intangible assets are tested for impairment on an annual basis. No impairment of intangible assets was identified in H1 2006 or in the comparative 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:

- costs of sales – PLN 169 k,
- general administrative expenses – PLN 1,177 k.

An important element of intangible assets is the computer software Retek, used as a sales support and goods management tool, compatible with the FK software. As at 30 June 2006, the carrying value of this software was PLN 11,696 k. Its expected useful life is estimated at 60 months from the balance sheet date.

As at 30 June 2006, the Group's contractual obligation related to the purchase of intangible assets totalled PLN 598 k.

In the reporting period from 1 January to 30 June 2006, the Group made no outlays on R&D works.

CHANGES IN INTANGIBLE ASSETS (by groups) in the period from 1-01-2006 to 30-06-2006 in PLN '000

	costs of completed R&D works	acquired patents, licenses and similar rights, including: total	software	intangible assets in progress	payments on account of intangible assets	other intangible assets	total
a) gross opening balance of intangible assets	443	18 103	17 968	2 519	398	216	21 679
- foreign exchange differences		-7	-7	0	0	14	7
- increase	-	4 243	4 168	1 590	55	58	5 946
- decrease		17	17	4 018	338		4 373
b) gross closing balance of intangible assets	443	22 322	22 112	91	115	288	23 259
c) opening balance accumulated amortisation	172	6 997	6 895	-	-	74	7 243
- foreign exchange differences	0	-3	-3			5	2
- planned amortisation write-offs	74	1 240	1 191	-		32	1 346
- foreign exchange differences	0	0	0			1	1
- decrease	0	17	17			0	17
d) closing balance accumulated amortisation	246	8 217	8 066	-	-	112	8 575
Total net closing balance of intangible assets	197	14 105	14 046	91	115	176	14 684

CHANGES IN INTANGIBLE ASSETS (by groups) in the period from 1-01-2005 to 31-12-2005							in PLN '000
	costs of completed R&D works	acquired patents, licenses and similar rights, including: total	software	intangible assets in progress	payments on account of intangible assets	other intangible assets	total
a) gross opening balance of intangible assets	418	11 349	11 170	1 754	-	123	13 644
- foreign exchange differences	25	4 699	4 771			22	4 746
- increase	-	2 067	2 040	2 624	398	71	5 160
- decrease		12	12	1 859			1 871
b) gross closing balance of intangible assets	443	18 103	17 969	2 519	398	216	21 679
c) opening balance of accumulated amortisation	25	4 710	4 619	-	-	25	4 760
- planned amortisation write-offs	147	2 297	2 286	-		49	2 493
- decrease		10	10				10
d) closing balance accumulated amortisation	172	6 997	6 895	-	-	74	7 243
Total net closing balance of intangible assets	271	11 106	11 074	2 519	398	142	14 436

The Group still uses fully amortised intangible assets with the initial carrying amount of PLN 2,823 k, including:

- software licenses: PLN 2,707 k
- other licenses: PLN 42 k
- copyrights: PLN 74 k.

As at the balance sheet date, there are no restrictions for the use of intangible assets and no security was established on intangible assets.

14.3 Investments

Sformatowane: Punktory i numeracja

Usunięto: 3

Investments include:

- shares held by the parent company in Polish non-consolidated subsidiaries: PLN 718 k,
- loans granted to third parties: PLN 237 k.

Loans granted are classified as financial instruments and described in Note 14.4 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 necessary.

14.4 Financial instruments measured as per IAS 39

In the reporting period, the Company had the following financial assets and liabilities:

- carried at fair value (receivables and payables other than trade receivables and payables, bank deposits),
- carried at amortised cost (loans granted, trade receivables and payables, credits).

The total amount of loans granted by the Capital Group as at 30 June 2006 is PLN 237 k (PLN 273 k as at 31 December 2005) and is related to a loan granted to a customer of the parent company. Under the agreement, interest (6% p.a.) and instalments of the principal amount are to be repaid in equal monthly instalments. The last instalment with interest is to be repaid on 31 March 2008.
As an active market does not exist, the Company 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.

Given their specific nature (no defined purpose of deposited funds), fixed-term deposits are classified by the Company as financial assets held for trading and carried at fair value in the balance sheet. Taking into account short maturity of bank deposits and associated insignificant credit risk and interest rate risk, the nominal value of bank deposits is considered a sufficient approximation of fair value.
Changes in loans granted and bank fixed-term deposits in the period from 1 January to 30 June 2006 (and the comparative period from 1 January to 30 June 2005) are presented in the table below.

PLN '000

CHANGE IN FINANCIAL INVESTMENTS	loans granted		bank fixed-term deposits	
	2006	2005	2006	2005
Opening balance	273	339	11 962	3 863
1) increase	7	8	142 195	669
- loan granted	0	0		
- interest accrued	7	8		
- deposit established			142 195	669
2) decrease	43	34	150 417	4 332
- loans repaid	36	29		
- interest repaid	7	5		
- deposits closed (reversed)			150 417	4 332
Closing balance	237	313	3 740	200

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, as 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.
In the reporting period, there were no trade receivables and payables with the maturity over 120 days.
Receivables and payables classified as "other" are carried at fair value as at the balance sheet date.

Long-term bank credit was carried at the outstanding amount payable (principal amount plus interest payable as at the balance sheet date, calculated as specified in the contract), as the difference in measurement (compared to the amortised cost method) is immaterial.

14.5 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:

PLN '000

INVENTORIES	30.06.2006	31.12.2005
1) materials	1 794	2 651
2) commodities	171 127	168 306
3) payments on account of deliveries	755	609
TOTAL	173 676	171 566

Trading commodities are also used as collateral to secure a bank credit taken by the Company in BPH S.A. The value of these commodities is PLN 3,700 k and is used as collateral to secure a multi-purpose credit line.

The carrying amount of inventories disclosed in the balance sheet was reduced by the amount of a write-down. Changes in the amount of inventories revaluation write-down in the reporting period and comparative periods are presented in the table below:

INVENTORIES REVALUATION WRITE-DOWN	30.06.2006	31.12.2005
Opening balance revaluation write-down of inventories	642	1 741
Revaluation write-downs of inventories – increase recognised in the reporting period under expenses in the P&L account	864	508
Revaluation write-downs of inventories – decrease recognised in the reporting period under revenues in the P&L account	9	1 589
Foreign exchange differences	-16	-19
Closing balance revaluation write-down of inventories	1 481	642

Trading commodities 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. In line with 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 into expenses of the period, while negative difference increases other operating revenues.

As at 30 June 2006, the amount of inventories expensed in the reporting period totalled PLN 168,877k.

14.6 Trade and other receivables

Sformatowane: Punktory i numeracja

Detailed information on the structure of the Capital Group's trade receivables is presented in the table below.

PLN '000

SHORT-TERM RECEIVABLES	30.06.2006	31.12.2005
1) from related parties	0	242
- trade receivables	0	242
2) from other entities	50 233	37 411
- trade receivables	32 422	28 848
- taxes, subsidies, customs duties and social security, health insurance and other benefits	9 611	2 394
- other	8 200	6 169
TOTAL	50 233	37 653

Trade receivables include mainly receivables related to the sale of clothing.
In the normal course of sale, 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 5,202 k.

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

REVALUATION WRITE-DOWN OF RECEIVABLES	30.06.2006	31.12.2005
Opening balance revaluation write-down of receivables	5 573	6 255
Revaluation write-downs of receivables – increase recognised in the reporting period	603	1 911
Revaluation write-downs of receivables – decrease recognised in the reporting period	976	2 596
Foreign exchange differences	2	3
Closing balance revaluation write-down of receivables	5 202	5 573

Usunięto: ¶

14.7 Cash

Sformatowane: Punktory i numeracja

PLN '000

CASH	30.06.2006	31.12.2005
1) cash in hand and cash in banks	11 116	14 858
2) other cash	3 740	12 508
TOTAL	14 856	27 366

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

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

PLN '000

CASH – CURRENCY STRUCTURE	30.06.2006	31.12.2005
in the Polish currency	5 623	16 255
in foreign currencies (by currency and converted into PLN)	9 233	11 111
- USD	1 283	1 159

data in PLN '000

- RMB	28	133
- EUR	203	96
- LVL	80	92
- EEK	1 352	1 519
- CZK	11 252	19 617
- UAH	616	403
- LTL	528	1 099
- HUF	29 650	62 509
- RUB	5 170	9 556
TOTAL	14 856	27 366

As at 30 June 2006, the Group had free borrowings of PLN 139,471 k.

In the period from 1 January to 30 June 2006, the Group made non-cash settlements with its customers (in the form of set-off of payables and receivables) in the amount of PLN 807 k.

The Group's restricted cash includes cash deposited on a separate bank account and related to the Company Social Fund. This Fund is established only by the parent company LPP S.A.
The amount of restricted cash was:

- as at 30 June 2006– PLN 259 k,
- as at 31 December 2005– PLN 156 k.

14.8 Equity

Sformatowane: Punktory i numeracja

Share capital
The Group's share capital is equal to share capital of the parent company LPP S.A.
As at 30 June 2006, the amount of share capital was PLN 3,407 k. Share capital is divided into 1,703,500 shares with the nominal value PLN 2.00 per share.
In the period from 1 January 2006 to 30 June 2006, the number of shares did not change.

data in PLN '000

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

Series/issue	Type of shares	Type of preference	Type of limitation of rights to shares	Number of shares	Value of the issue
A	bearer shares	common (ordinary)	none	100	200
B.	registered shares	preference	none	350 000	700 000
C	bearer shares	common (ordinary)	none	400 000	800 000
D	bearer shares	common (ordinary)	none	350 000	700 000
E	bearer shares	common (ordinary)	none	56 700	113 400
F	bearer shares	common (ordinary)	none	56 700	113 400
G	bearer shares	common (ordinary)	none	300 000	600 000
H	bearer shares	common (ordinary)	none	190 000	380 000
TOTAL NUMBER OF SHARES				1 703 500	

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 30 June 2006 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	281 876	981 876	31.64%	16.55%	563 752
Jerzy Lubianiec	276 039	976 039	31.45%	16.20%	552 078
Grangefont Limited, headquartered in London, UK	350 000	350 000	11.28%	20.55%	700 000
Other shareholders	795 585	795 585	25.6%	46.7%	1 591 170
TOTAL	1 703 500	3 103 500	100.0%	100.0%	3 407 000

Reserve capital
The Capital Group's reserve capital was created from net profit (to be used to offset any potential loss), share issue premium, and as a result of measurement of share-based payments.
Part of the reserve capital established as a write-off from the financial result of LPP S.A. was created on a statutory basis under art. 396 of the Code of Commercial Companies and may be used in the future only to offset a loss disclosed in the financial statement.

The structure of reserve capital is as follows:

in PLN '000

TYPE OF RESERVE CAPITAL	30 June 2006	31 December 2005
created on a statutory basis based on the write-off from financial result	1 249	1 200
created as per the Articles of Association based on the write-off from financial result	158 765	126 916
created from share issue premium	71 202	71 202
created from share-based payments	1 050	1 050
TOTAL	232 266	200 368

Equity of the parent company in the hyperinflationary period

Conversion of the equity from the hyperinflationary period was based on the following data:

1. The Company was established on 18 December 1989 with the initial capital of PLN 200,00 (after currency denomination);
2. On 4 May 1995, the Company was taken over by Marek Piechocki and Jerzy Lubianiec;
3. The increase of share capital to PLN 700 k was registered on 12 April 1995;
4. On 24 October 1995, a resolution was adopted to increase the Company's share capital to PLN 1,500 k;
5. On 4 January 1996, a resolution was adopted to increase the Company's share capital to PLN 2,200 k.

in 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 the equity conversion was PLN 847 k.

14.9 Grants

As at 30 June 2006, 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.

14.10 Provisions

Sformatowane: Punktory i numeracja

As at the balance sheet date, the Group recognised the total of PLN 5,608 k in provisions under liabilities in the balance sheet.
This amount includes:

- deferred tax provision (cf. 14.18)
- provision for retirement benefits and similar benefits
- provision for holiday leaves not taken
- provision for liabilities.

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 provision for holiday leaves not taken, i.e. future payment of amounts payable to employees for their on-going service.

Provision for liabilities
A provision for liabilities whose settlement is doubtful also established.

PLN '000

CHANGE IN PROVISIONS	provision for retirement benefits and similar benefits	provision for holiday leaves not taken	provision for liabilities
As at 1 January 2006	287	883	45
- increase of the provision	37	816	0
- use of the provision	0	498	18
- foreign exchange differences	0	28	1
As at 30 June 2006	325	1 229	28

14.11 Contingent liabilities

Sformatowane: Punktory i numeracja

In H1 2006, Capital Group companies used bank guarantees to secure payment of rent for leased retail premises where brand stores are located.

As at 30 June 2006, the total value of bank guarantees granted at the request of and on the responsibility of LPP S.A. amounted to PLN 53,599.8 k, of which:

- guarantees granted to secure agreements concluded by LPP S.A. – PLN 6,861.9 k
- guarantees granted to secure agreements concluded by consolidated related parties – PLN 30,268.1 k

- guarantees granted to secure agreements concluded by non-consolidated related parties – PLN 16,215.1 k
- guarantees granted to secure agreements concluded by third parties – PLN 254.7 k.

As at 30 June 2006, the total amount of all sureties issued by the parent company totalled PLN 5,612 k, up by PLN 1,100 k compared to 31 December 2005.
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.

14.12 Future liabilities arising from retail lease agreements

Sformatowane: Punktory i numeracja

The Group is party to lease agreements providing for the use of retail premises where Cropp Town and Reserved brand stores are located.

Total future minimum payments under lease agreements, estimated as at 30 June 2006, are as follows:
- payables with the maturity date within 12 months from the balance sheet date PLN 99,073 k
- payables with the maturity date from 12 months to 5 years from the balance sheet date PLN 266,247 k
- payables with the maturity date over 5 years from the balance sheet date PLN 81,897 k.

The amount of PLN 46,412 k resulting from the minimum and contingent payments of rent for the lease of retail premises is disclosed under expenses of the reporting period from 1 January to 30 June 2006. 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 in the store is generated. Contingent rent is calculated as a percentage of these revenues. In the reporting period, the amount of contingent rent was immaterial and represented only 3% of the total amount of rent. Retail lease agreements also contain adjustment clauses, linking the amount of rent with 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.

14.13 Borrowings (credits)

Sformatowane: Punktory i numeracja

As at 30 June 2006, the Group's payables related to bank credits were as follows:

PLN '000

Bank	Utilisation of credits as at 30 June 2006		Borrowing costs	Maturity date
	in PLN '000	currency in '000		
PKO BP S.A.	67 702		WIBOR 1 m + bank's margin	30-05-2008
BPH S.A.	29 272		WIBOR 1 m + bank's margin	31-07-2006
Fortis Bank Polska S.A.	402	USD 123	LIBOR 1 m + bank's margin	26-01-2007
Fortis Bank Polska S.A.	10 346		WIBOR 1 m + bank's margin	26-01-2007
Raiffeisen Bank Polska S.A.	985	USD 301	LIBOR 1 m + bank's margin	31-05-2008
Raiffeisen Bank Polska S.A.	25 280		WIBOR 1 m + bank's margin	31-05-2008
ZAO Raiffeisenbak Austria	1 005	RUB 8 509	RBRU's overdraft rate + bank's margin	15-12-2006
Bayerische Hypo und Vereinsbank AG (HVB Vilnius)	1 689	EUR 417	EURIBOR 1 m + bank's margin	15-12-2006
HVB Praha	4 415	CZK 31 071	PRIBOR + bank's margin	30-11-2006
TOTAL	141 096			

Bank credits amounted to PLN 141,096 k, of which:
- long-term credits – PLN 11,000 k
- short-term credits – PLN 130,096 k.

The amount of PLN 11,000 k represents a long-term credit incurred in Raiffeisen Bank Polska S.A.

As at 31 December 2005, the Group's payables related to bank credits were as follows:

Bank	Utilisation of credits as at 31 December 2005		Borrowing costs	Maturity date
	in PLN '000	currency in '000		
PKO BP S.A.	54 791		WIBOR 1 m + bank's margin	30-05-2008
BPH S.A.	35 637		WIBOR 1 m + bank's margin	31-07-2006
Fortis Bank Polska S.A.	21 193		WIBOR 1 m + bank's margin	26-01-2007
Raiffeisen Bank Polska S.A.	20 793		WIBOR 1 m + bank's margin	30-04-2007
Raiffeisen Bank Polska S.A.	1 019	USD 300	LIBOR 1 m + bank's margin	30-04-2007
BRE BANK S.A.	0		LIBOR 1m + bank's margin	20-01-2006
Bayeische Hypo und Vereinsbank AG		EUR 497		15-12-2006
HVB Praha	4 129	CZK 31 071	PRIBOR + bank's margin	30-11-2006
TOTAL	137 562			

Bank credits amounted to PLN 137,562 k, of which:

- long-term credits – PLN 11,000 k
- short-term credits – PLN 126,562 k.

The amount of PLN 11,000 k represents a long-term credit incurred in Raiffeisen Bank Polska S.A.

Detailed data on bank credits is as follows:

Bank	Type of credit/line	Credit amount and currency		Security
		in '000	currency	
Millenium	Guarantee line	17 000	PLN	blank promissory note
PKO BP S.A.	multi-purpose multi currency credit line	100 000	PLN	blank promissory note
BPH S.A.	multi-purpose multi currency credit line	100 000	PLN	transfer of ownership rights to goods – PLN 3,700 k, assignment of rights from the insurance policy, blank promissory notes
Fortis Bank Polska S.A.	Revolving credit limit	100 000	PLN	blank promissory note
Raiffeisen Bank Polska S.A.	Multi-currency overdraft facility	100 000	PLN	blank promissory note
ZAO Raiffeisenbak Austria	Credit line*	14 000	RUB	guarantee of Raiffeisen Bank Polska S.A.
Bayerische Hypo und Vereinsbank AG (HVB Vilnius)	Credit line*	550	EUR	guarantee of BPH S.A.
HVB Prague	Credit line*	68 700	CZK	guarantee of BPH S.A.

* within the limit of a multi-purpose line in Raiffeisen bank Polska and BPH SA

14.14 Trade and other payables

Sformatowane: Punktory i numeracja

PLN '000

SHORT-TERM PAYABLES	30.06.2006	31.12.2005
1) in respect of subsidiaries	1 202	1 931
- trade receivables	1 202	1 931
2) in respect of other entities	205 236	183 216
- credits and loans, including:	130 096	126 562
- trade receivables	64 279	46 517
- taxes, customs duties, insurance and other benefits	9 342	7 051
- remuneration	1 386	1 088
- other	133	1 998
3) special funds	320	141
4) provisions	1 257	928
TOTAL	208 015	186 216

14.15 Prepaid expenses

Sformatowane: Punktory i numeracja

Long-term prepaid expenses as at 30 June 2006 amounted to PLN 89 k, and the main item was the prepaid commission on bank credits.
Short-term prepaid expenses as at 30 June 2006 totalled PLN 2,728 k, of which:

PREPAID EXPENSES	30.06.2006	31.12.2005
Prepaid rent for the lease of retail premises to be settled within 12 months from the balance sheet date	1 819	1 406
Costs of customs guarantees and insurance	78	405
Supervision of software	286	59
Commissions on bank credits	156	143
Other	389	591
TOTAL	2 728	2 604

14.16 Revenues

Sformatowane: Punktory i numeracja

PLN '000

REVENUES	01.01.06-30.06.06	01.01.05-30.06.05
1) net revenues from sales of services	2 569	2 052
2) net revenues from sales of goods and materials	322 173	302 851
TOTAL	324 741	304 902

The Group's revenues from sales of services are generated mainly by the parent company. Services provided by the parent company include:

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

PLN '000

OTHER OPERATING REVENUES	01.01.06-30.06.06	01.01.05-30.06.05
1. Profit from sale of non-financial fixed assets	14	26
2. Grants	137	124
3. Other operating revenues	2 057	2 036
TOTAL	2 208	2 186

FINANCIAL REVENUES	01.01.06-30.06.06	01.01.05-30.06.05
1. Dividends	1 137	0
2. Interest	197	509
3. Other, including:	4 951	20
- balance of foreign exchange differences	4 933	0
TOTAL	6 285	529

PLN '000

14.17 Expenses

Sformatowane: Punktory i numeracja

PLN '000

EXPENSES BY TYPE	01.01.06-30.06.06	01.01.05-30.06.05
1) depreciation and amortisation	19 701	13 551
2) consumption of materials and energy	11 726	10 498
3) outsourced services	103 548	86 406
4) taxes and fees	1 535	1 001
5) remuneration	22 611	16 708
6) social security and other benefits, including:	5 826	4 243
- pension contribution	1 298	1 486
7) other expenses (by type)	13 255	10 348
TOTAL	178 202	142 755
Change in products	179	472
Selling costs and general administrative expenses recognised in the profit and loss account	178 381	142 283

PLN '000

OTHER OPERATING EXPENSES	01.01.06-30.06.06	01.01.05-30.06.05
1) Loss from sale of non-financial fixed assets	2	0
2) Revaluation of non-financial assets	1 302	1 200
3) Other	3 226	2 310
TOTAL	4 530	3 510

PLN '000

FINANCIAL EXPENSES	01.01.06-30.06.06	01.01.05-30.06.05
1) Interest	3 164	2 660
2) Other, including:	409	2 454
- commissions on bank credits and guarantees	409	302
- balance of foreign exchange differences	0	2 152
TOTAL	3 573	5 114

14.18 Income tax

Sformatowane: Punktory i numeracja

The main elements of taxation for H1 2006 and H1 2005 are as follows:

in PLN '000

Profit and loss account	H1 2006	H1 2005
Current income tax	540	4 023
Deferred income tax	(887)	1 697
TOTAL	(347)	5 720

Reconciliation of income tax on the financial result before tax at the statutory tax rates adopted in each country with income tax presented in the profit and loss account for the period between 1 January and 30 June 2006 (and 2005) is presented in the table below.

		PLN '000
CURRENT INCOME TAX	H1 2006	H1 2005
Gross profit/loss before consolidation adjustments	(14 735)	22 572
Adjustment of non-taxable revenues and costs	6 193	8 700
Profit/loss before consolidation adjustments and before tax	(8 542)	31 272
Income tax at 20.6% and 19.06% tax rate	(1 761)	5 961
Consolidation adjustments	1 362	(234)
Adjustment of depreciation-related temporary differences	107	0
Tax relief	(55)	(35)
Adjustment of income tax from previous years		22
Other	0	6
Income tax disclosed in the P&L account	(347)	5 720

Current and deferred income tax is calculated at the following tax rates:

- LPP S.A.– 19% tax rate,
- ZAO Re Trading (Russia) – 25% tax rate,
- UAB "LPP" (Lithuania) – 15% tax rate,
- tax rate,
- LPP Ukraina AT – 25% tax rate.

The amount of deferred income tax assets and provision recognised in the balance sheet results from the items and amounts presented in the table below.

PLN '000

DEFERRED INCOME TAX ASSETS	30.06.2006	31.12.2005
surplus of balance sheet depreciation of PP&E over tax-based depreciation	1 788	1 342
foreign exchange differences – payables	371	513
revaluation of trade receivables	674	564
revaluation of PP&E	235	288
margin on goods not sold outside the Group	1 098	871
revaluation of inventory	238	88
other temporary differences	1 138	690
TOTAL	5 542	4 356

PLN '000

PROVISION FOR DEFERRED INCOME TAX	30.06.2006	31.12.2005
accelerated tax-based depreciation (capital cost allowance)	3 836	3 530
outstanding interest on loans granted	1	0
damages not received	45	0
other	144	203
TOTAL	4 026	3 733

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 as at 30 June 2006 and 30 June 2005 resulted from the following items:

DEFERRED INCOME TAX ASSETS	30.06.2006	30.06.2005
surplus of balance sheet depreciation of PP&E over tax-based depreciation	470	287
foreign exchange differences – payables	(229)	(886)
revaluation of trade receivables	(42)	(24)
margin on goods not sold outside the Group	248	338
revaluation of PP&E	(53)	4
revaluation of inventory	150	(20)
other temporary differences	642	87
foreign exchange differences	-20	(154)
TOTAL	1 166	(368)

PLN '000

PROVISION FOR DEFERRED INCOME TAX	30.06.2006	30.06.2005
accelerated tax-based depreciation (capital cost allowance)	237	1 207
outstanding interest on loans granted	6	(5)
damages not received	45	0
other	5	262
foreign exchange differences	-14	(135)
TOTAL	279	1 329

If a decision is made to pay out dividends to shareholders, the following procedure shall be adopted:

- Polish shareholders – payment will be based on deduction of income tax at 19% tax rate,

- foreign shareholders – payment may be made based on deduction of income tax, depending on terms and conditions of the relevant double taxation agreement.

14.19. Related-party transactions

Sformatowane: Punktory i numeracja

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.

14.19.1 Key management personnel

Usunięto: 13.18.1

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 from 1 January to 30 June 2006 was PLN 546 k. Compensation of each member of key management personnel was as follows:
President of the Management Board – PLN 180 k,
Vice-President of the Management Board – PLN 120 k,
Vice-President of the Management Board – PLN 120 k,
Vice-President of the Management Board – PLN 120 k,
Chairman of the Supervisory Board – PLN 6k (for services other than membership in the Supervisory Board).

14.19.2 Related party transactions

Usunięto: 13.18.2

PLN '000

No.	RELATED PARTIES	payables as at 30 June 2006	receivables as at 30 June 2006	revenues in H1 2006	expenses in H1 2006
1.	Polish subsidiaries – total	1 202	0	48	21 229
TOTAL		1 202	0	48	21 229

PLN '000

No.	RELATED PARTIES	payables as at 30 June 2006	receivables as at 30 June 2006	revenues in H1 2005	expenses in H1 2005
1.	Polish subsidiaries – total	1 920	242	46	16 818
TOTAL		1 920	242	46	16 818

Amounts presented in the table show only intercompany transactions between LPP SA 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. are 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 rental of offices where these companies run their businesses.
Expenses related to Polish subsidiaries are connected with lease of premises for Cropp Town and Reserved brand stores.
Payment terms adopted for subsidiaries are between 45 and 120 days.

14.20 Segment reporting

Sformatowane: Punktory i numeracja

The Capital Group is running only one type of business (one core segment). Two geographical segments have been identified: business within and outside the European Union. Division into geographical segments was based on the criterion of location of the Group's assets.
Under IAS 34 "Interim financial reporting", LPP Capital Group is under no obligation to disclose its financial data broken down into segments in this half-year report.

Usunięto: Działalność grupy kapitałowej emitenta związana jest z handlem odzieżą. Prowadzona jest obecnie w 8 krajach podzielonych na dwa segmenty: kraje Unii Europejskiej i kraje spoza UE (podział zgodnie z MSR 14). Emitent jest 100 % właścicielem wszystkich podmiotów zagranicznych, z których każdy prowadzi sprzedaż odzieży zakupionej od emitenta na terenie jednego kraju. Emitent odgrywa wiodącą rolę w grupie organizując podstawowe procesy dotyczące pozyskiwania towarów handlowych jednocześnie osiągając największy udział w przychodach grupy.

Half-year report on operations of LPP S.A. Capital Group

The Capital Group LPP S.A. business in the period between 1 January 2006 and 30 June 2006

Basic tasks carried out in H1 2006:

1. New outlets Reserved and Cropp Town were opened (about 9 thousand square meters), increasing the total selling area by 10% to 104 thousand square metres. At the end of H1 2006, there were 220 outlets in 8 countries. Revenues from retail sales of clothing of the Capital Group represented over 88% of total revenues.
2. A new collection autumn-winter 2006 was designed based on well-proven, successful designs. Wrong assumptions underlying the design of very trendy yet unsuccessful products launched in the past 12 months were changed – the Group returned to its 1999-2004 experiences.

The basic figures reflecting results of the Capital Group's performance in H1 2006 are as follows:

item	H1 2006 (PLN million)	H1 2005 (PLN million)	change %
Revenues from sales	324.7	304.9	7%
Gross profit on sales	169.8	170.1	-0.2%
Costs of sales	155.7	123.3	26.2%
General administrative expenses	22.7	19.0	19.5%
Operating profit + depreciation	8.8	40.0	-77.9%
Operating profit/loss	-10.9	26.5	-141.0%
Net profit/loss	-7.8	16.2	-148.2%

Revenues from sales in H1 2006 were up by approx. 6.5% in comparison with revenues from sales in the corresponding period in 2005. Gross profit on sales was down by 0.2 percentage point. Costs of sales increased considerably to the growth of revenues from sales – up by 26.2%. Expenses related to the management of retail outlets represent a considerable portion if these costs. The total selling area which determines the amount of these costs was up by 32% compared to the corresponding period in 2005. In H1 2006, general administrative expenses were up by 19.5% vs. H1 2005. These amounts resulted in a net loss of PLN 7.8 million generated by LPP S.A. Capital Group.

Margins are presented in the table below.

Profit margin (%)	H1 2006	H1 2005
Gross profit margin on sales	52.3	55.8
EBITDA	2.7	13.1
Operating profit margin	-3.3	6.2
Net profit margin	-2.4	5.3

Presented below are revenues from sales generated by individual Capital Group companies and presented in the consolidated financial statement (Group inter-company sales excluded):

country	H1 2006 (PLN million)	H1 2005 (PLN million)	change %
Poland	265.3	263.3	0.8%
the Czech Republic	14.1	12.2	15.4%
Estonia	8.0	6.6	21.8%
Latvia	7.4	5.2	42.8%
Lithuania	9.4	5	87.4%
Hungary	4.0	4	1.2%
Russia	10.3	4.3	139.5%
Ukraine	6.2	4.2	47.0%
Total	324.7	304.9	6.5%

In H1 2006, dynamic development of the Reserved network was continued outside of Poland. Revenues generated by subsidiaries in 7 countries were up by 43.2%. The highest growth was recorded in Russia, resulting from the largest extension of the selling area in this country.

	H1 2006 (PLN million)	H1 2005 (PLN million)	change %
Poland	265.3	263.3	0.8%
Member States of the European Union	43.0	33.0	30.2%
Other countries	16.5	8.5	93.8%
Total	324.7	304.8	6.5%

These bad results were caused mainly by the continued sale of the unsuccessful collection. The 2005 change of the design was a mistake – products launched in autumn-winter 2005 and spring-summer 2006 were very much different from the earlier Reserved collections. Although the network development plans were realised, costs of operation exceeded gross profits as a result of the drop in revenues caused by the unsuccessful sales.

II. Key factors for the development opportunities, risks and threats

Basic tasks of LPP S.A. Capital Group determining its market position in the future are as follows:
a) developing a network of brand stores in Poland and in Central and Eastern Europe,
b) building strong clothing brands (Reserved and Cropp, and potentially other).

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) Market strategy of LPP S.A. Capital Group

LPP S.A. Capital Group is focused on the design and distribution of clothing as well as the brand building process while outsourcing many activities. The Company does not have its own production capacity and does not plan to develop its own production sites. 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.

b) The Group's market position

Given the generated revenues from sales, LPP S.A. Capital Group is one of the main players on the market. At the same time, the increasing nominal value of markets where LPP S.A. Capital Group companies operate is an opportunity for the further growth of the Group.

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

The clothing market is characterised by a great diversification of customer expectations. The experience of Reserved and Cropp shows that the Group may generate and develop new ideas to attract new customer groups, and at the same time offer an extended portfolio of products within a single network to increase its sales volumes. LPP S.A. Capital Group is continuously developing its offer within the existing network of outlets and at the same time is considering the possible growth based on new networks.

External factors

a) Change and growth of the clothing retail market in Poland and abroad

In reaction to changes in the retail clothing market, LPP S.A. is consistently implementing its plan of development of an extensive network of brand stores, selling clothing under a widely recognised label, and at the same time is extending its portfolio of brands to capture new, attractive market areas. In a highly competitive market, the priority is not only to offer attractive designs, but also to improve the IT systems or logistics.

b) Foreign exchange rates

The majority of transactions related to trading commodities purchased by LPP SA CG involve payments denominated in foreign currencies (mostly in USD, a small portion in EURO).
Variability of the exchange rate of these currencies against PLN, which in turn is the currency of the majority of the Group's transactions of sale, are immaterial – according to the Management Board, it is unlikely to affect the Capital Group's results.
Given the specific type of the Group's business, it is possible to partially pass the risk of 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 transactions denominated in foreign currencies, there is yet another area where the Group's expenses may be affected by the EURO exchange rates: the majority of settlements related to contracts of lease of commercial premises where products are sold on the retail market. The above opinion of the Management Board on the immaterial impact of currency exchange rate variability applies also to the settlements under contracts of lease.

c) Overall economic situation. The level of spending on consumer goods, including clothing.

The economic growth in Poland and in other countries where the Capital Group companies sell their products is an opportunity for the growth in consumption, and thus the growth in spending on clothing.

d) Changes in fashion – influencing attractiveness of the products

Each company operating on the "mass fashion" market must develop effective tools to translate the market trends to their collections of clothing to remain up to date. The design department of LPP S.A., which creates collections for the entire Capital Group, uses these tools. They include keeping in touch with the latest trends shown on runways around the world, frequent visits in trend-setting cities, and using up-to-date IT technologies. However, the Group's results from the past 12 months show that these factors are necessary, but not sufficient to guarantee the success of a collection. Products were designed based on the latest trends, but still proved partially unsuccessful. It was a result of an abrupt change of the collection compared to the earlier, successful Reserved collections; it proves that continuity and consistency is also a very important element of any collection of clothing.

III. Remuneration, bonuses, or benefits payable of potentially payable to members of the Board of Directors or the Supervisory Board

Information on the amount of remuneration, bonuses, or benefits payable of potentially payable to members of the Group's Board of Directors or the Supervisory Board are presented in Note 9 and Note 14.19.1 to the consolidated financial statement.

STATEMENT OF THE MANAGEMENT BOARD

Pursuant to the provisions of the Ordinance of the Council of Ministers of 19 October 2005 on current and interim information provided by issuers of securities, the Management Board of LPP S.A. hereby declares that:

- to the best of the Board's knowledge, the half-year individual financial statement of LPP S.A. and comparative data has 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 S.A.,

- the Management Board's half-year report presents a true and fair view of the development and achievements of LPP S.A., including an accurate description of risks and threats,

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

The Management Board of LPP S.A.:

Marek Piechocki ....

Alicja Milińska ....

Dariusz Pachla ....

Stanisław Dreliszak ....

Aleksander Moroz ....

Gdańsk, 25 September 2006

Interim condensed individual financial statement for the period from 1 January 2006 and 30 June 2006

1. **Selected financial data – individual statement**

Selected financial data	H1 2006 01/01/2006-30/06/2006 in PLN '000	H1 2005 01/01/2005-30/06/2005 in PLN '000	H1 2006 01/01/2006-30/06/2006 in EUR '000	H1 2005 01/01/2005-30/06/2005 in EUR '000
Net revenues from sales of products, goods and materials	300 156	285 761	76 959	70 031
Operating profit (loss)	-2 593	31 720	-665	7 774
Profit (loss) before tax	-5 710	30 201	-1 464	7 401
Net profit (loss)	-4 607	24 347	-1 181	5 967
Net cash flow from operations	15 496	6 379	3 973	1 563
Net cash flow from investments	-23 434	-33 192	-6 008	-8 134
Net cash flow from financial activity	-2 373	24 815	-608	6 081
Total net cash flow	-10 311	-1 998	-2 644	-490

Selected financial data	H1 2006 01/01/2006-30/06/2006 in PLN '000	H1 2005 01/01/2005-30/06/2005 in PLN '000	H1 2006 01/01/2006-30/06/2006 in EUR '000	H1 2005 01/01/2005-30/06/2005 in EUR '000
Total assets	438 890	390 328	108 545	96 613
Long-term payables	15 225	5 098	3 765	1 262
Short-term payables	192 645	158 056	47 644	39 122
Equity	230 492	226 525	57 005	56 069
Share capital	3 407	3 407	843	843
Number of shares	1 703 500	1 703 500	1 703 500	1 703 500
Profit (loss) per ordinary share (EPS) (in PLN/EURO)	-2.70	14.29	-0.69	3.50
Book value per share – BVPS (in PLN/EURO)	135.30	132.98	33.46	32.91
Dividend per share – declared or paid (in PLN/EURO)	-	-	-	-

data in PLN '000

2. Balance sheet

Balance sheet	Notes	as at the end of: 30/06/2006	30/06/2005	31/12/2005
ASSETS				
Fixed assets		*169 470*	*148 302*	*160 477*
1. Tangible fixed assets (PP&E)	13.1	127 582	112 340	130 527
2. Intangible assets	13.2	14 312	14 000	14 106
3. Investments	13.3	19 762	18 281	9 636
4. Receivables		255	192	187
5. Deferred income tax assets	13.18	7 471	2 747	5 583
6. Prepaid expenses	13.15	88	742	438
Current assets		*269 420*	*242 026*	*261 242*
1. Inventories	13.5	151 299	159 455	155 016
2. Trade and other receivables	13.6	105 356	70 219	83 080
3. Prepaid expenses	13.15	2 496	2 446	2 319
3. Investments	13.3	240	594	487
5. Cash and cash equivalents	13.7	10 029	9 312	20 340
TOTAL assets		***438 890***	***390 328***	***421 719***

data in PLN '000

	Notes	30/06/2006	30/06/2005	31/12/2005
LIABILITIES				
Equity		*230 492*	*226 525*	*235 126*
1. Share capital	13.8	3 407	3 407	3 407
2. Reserve capital	13.8	232 153	199 205	200 256
3. Retained profit/accumulated loss brought forward from previous years		-461	-434	-434
4. Net profit/loss of the reporting period		-4 607	24 347	31 897
Long-term payables		*15 225*	*5 098*	*14 894*
1. Bank credits and loans	13.13	11 000	1 711	11 000
2. Provisions	13.10	325	290	287
3. Deferred income tax provision	13.18	3 900	3 097	3 607
Short-term payables		*192 645*	*158 056*	*170 697*
1. Trade and other payables	13.14	68 864	60 777	45 436
2. Bank credits and loans	13.13	122 987	95 812	122 433
3. Income tax		0	767	2 393
4. Provisions	13.10	473	378	294
5. Special funds		321	322	141
Accruals and deferred income		*528*	*649*	*1 002*
TOTAL liabilities		***438 890***	***390 328***	***421 719***

Book value	230 492	226 525	235 126
Number of shares	1 703 500	1 703 500	1 703 500
Book value per share – BVPS (in PLN)	135.30	132.98	138.03

data in PLN '000

3. Profit and loss account

Profit and loss account	Notes	Current year 01/01/2006- 30/06/2006	Previous year 01/01/2005-30/06/2005
Revenues from sales	13.16	300 156	285 761
Selling costs		159 882	136 917
Gross profit/loss on sales		*140 274*	*148 844*
Other operating revenues	13.16	2 624	2 092
Costs of sales		119 066	101 301
General administrative expenses		17 162	15 200
Other operating expenses	13.17	9 263	2 715
Operating profit/loss		*-2 593*	*31 720*
Financial revenues	13.16	4 944	1 336
Financial expenses	13.17	8 061	2 855
Profit/loss before tax		*-5 710*	*30 201*
Taxes	13.18	-1 103	5 854
Net profit/ loss		-4 607	24 347
Weighted average number of ordinary shares		1 703 500	1 703 500
Profit (loss) per ordinary share (EPS) (in PLN)		(2.70)	14.29

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

data in PLN '000

4. Statement of changes in shareholders' equity

	Share capital	Reserve capital	Retained profit/accumulated loss brought forward from previous years	Net profit/loss of the reporting period	Revaluation reserve	TOTAL equity
As at 1 January 2005	3 407	151 172	47 551	0	0	202 130
- corrections of errors from previous years			48			48
As at 1 January 2005 (corrected)	3 407	151 172	47 599	0	0	202 178
Distribution of FY 2004 profit		48 033	-48 033			0
Net profit for H1 2005				24 347		24 347
As at 30 June 2005	3 407	199 205	-434	24 347	0	226 525
As at 1 January 2006	3 407	200 256	31 463	0	0	235 126
- corrections of errors from previous years			-27			-27
As at 1 January 2006 (corrected)	3 407	200 256	31 436	0	0	235 099
Distribution of FY 2005 profit		31 897	-31 897			0
Net profit for H1 2006				-4 607		-4 607
As at 30 June 2006	3 407	232 153	-461	-4 607	0	230 492

data in PLN '000

5. Cash flow statement

Consolidated cash flow statement

	01/01/2006- 30/062006	01/01/2005-30/06/2005
A. Cash flow from operations – indirect method		
I. Net profit (loss)	-4 607	24 347
II. Total adjustments	20 103	-17 968
1. Depreciation and amortisation	14 157	10 175
2. Foreign exchange (gains) losses	-202	627
3. Interest and share in profits (dividends)	1 337	1 878
4. (Profit) loss from investments	3 758	172
5. Income tax paid	-6 903	-8 591
6. Income tax charged to result before tax	-1 103	5 853
7. Change in provisions	217	30
8. Change in inventories	3 712	-37 429
9. Change in receivables	-22 343	-22 710
10. Change in short-term payables, excluding credits and loans	27 775	32 105
11. Change in prepaid expenses, accruals and deferred income	-302	-78
12. Other adjustments	0	0
III. Net cash flow from operations (I+/-II)	15 496	6 379
B. Cash flow from investments		
I. Inflows	1 690	3 111
1. Sale of intangible assets and tangible fixed assets	219	225
2. From financial assets, including:	1 471	2 885
a) in related parties	1 428	2 851
- repayment of short-term loans	157	1 599
- dividends	1 136	0
- interest	135	257
- repayment of long-term loans granted	0	995
b) in other entities	43	34
- repayment of short-term loans granted	36	29
- interest	7	5
3 . Other inflows from investments	0	1
II. Outflows	25 124	36 303
1. Acquisition of intangible assets and tangible fixed assets	12 058	33 582

data in PLN '000

2. On financial assets, including:	13 066	2 707
a) in related parties	13 066	2 707
- acquisition of shares, additional paid-in capital	2 513	1 498
- long-term loans granted	0	728
- short-term loans granted	10 553	481
b) in other entities	0	0
- long-term loans granted	0	0
3. Other outflows on investments	0	14
III. Net cash flow from investments (I-II)	-23 434	-33 192
C. Cash flow from financial activity		
I. Inflows	588	28 076
1. Credits and loans	588	28 076
2. Other financial inflows	0	0
II. Outflows	2 961	3 261
1. Repayment of credits and loans	0	786
2. Interest	2 961	2 475
3. Other financial outflows	0	0
III. Net cash flow from financial activity (I-II)	-2 373	24 815
D. Total net cash flow (A.III+/-B.III+/-C.III)	**-10 311**	**-1 998**
E. Total cash flow balance, including:	**-10 311**	**-1 998**
- change in cash – foreign exchange differences	-33	24
F. Opening cash balance	**20 340**	**11 310**
G. Closing cash balance (F+/-D), including:	**10 029**	**9 312**
- restricted cash	259	62

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENT OF LPP S.A. FOR H1 2006

INTRODUCTION

1. General information

Name and registered office: 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".

Place of business

The Company is running its business activities in Poland.

Sector as classified by the Warsaw Stock Exchange:

LPP S.A shares are listed on the main market of the Warsaw Stock Exchange and classified in the trade sector.

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

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

Members of the Supervisory Board:
- Jerzy Lubianiec - Chairman of the Supervisory Board
- Krzysztof Fąferek - 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
- Andrzej Puślecki - member of the Supervisory Board

data in PLN '000

3. Related parties

The detailed list of related parties is presented in the table 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	Peremyshlany, Ukraine	23.07.2003
26.	RE Trading Zamknięta Spółka Akcyjna	Moscow, Russia	12.02.2004

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

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

Under the Accounting Act of 29 September 1994 (consolidated text: Journal of Laws of 2002 No. 76 item 694, as amended), as of 1 January 2005 LPP S.A. shall present its consolidated financial statements drawn up as per the International Financial Reporting Standards (IFRS) and related interpretations published in the form of Regulations of the European Commission. In line with the Accounting Act, on 28 June 2005 the General Meeting of Shareholders of LPP S.A. adopted resolution no. 19/2005 to draw up its individual financial statements as per the IFRS and related interpretations.

5. Declaration of compliance with IFRS

This financial statement has been drawn up in line with the International Financial Reporting Standards (IFRS) approved by the European Union, covering standards and interpretations approved by the International Accounting Standards Board and International Financial Reporting Standards Interpretation Committee.

6. Going concern assumption

The financial statement of LPP S.A. for H1 FY 2006 was drawn up based on the assumption that the Company shall remain a going concern in the foreseeable future and that the scope of its business is not restricted to a considerable extent.
Based on the information available as at the date of preparation of the financial statement, the going concern assumption adopted in this financial statement is fully justified.

7. Date of approval of the financial statement for publication

This financial statement was approved for publication by the Management Board of LPP S.A. on 25 September 2006.

8. Events after the balance sheet

As per IAS 10, events after the balance sheet date include all events that occurred between the balance sheet date and the date that the financial statement is authorised for issue (i.e. approved for publication).
The Management Board is authorised to adjust the financial statement after its publication.
After the balance sheet date there have been no events which could have a material impact on the Company’s future financial results, nor any other events which should be taken into account or disclosed separately in this financial statement as per IFRS.

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

Tangible fixed assets (PP&E) and intangible assets
Fixed assets (PP&E) 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 the fixed assets 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 fixed assets but recognised in the profit and loss account when incurred.
As at the balance sheet date, fixed assets are measured at cost less depreciation and impairment losses.
The Company’s depreciation write-offs are made on a straight-line basis. Tangible fixed assets (PP&E) are depreciated over their pre-determined expected useful life verified on an annual basis.
PP&E is also tested for impairment resulting from any 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 threshold amounts for one-off depreciation of PP&E or non-inclusion of an asset in PP&E are equal to tax threshold amounts.
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 have been 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).

Under the accounting policy adopted by the Company, straight-line depreciation of low-price assets may be adopted in justified cases if all the following circumstances occur simultaneously:

- many fixed assets are purchased at the same time and their unit price is not in excess of the threshold amount, 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 fixed assets are high quality and high availability (HA) assets.

This situation has occurred twice so far in LPP S.A. 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 the Company related to investments into the construction and furnishing of new Reserved and Cropp brand stores – implementation of a new plan 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 in 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 LPP S.A. include:

- shares in related parties – 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.
- additional paid-in capital in related parties – carried at nominal value less impairment losses.

Long-term prepaid expenses in LPP S.A. 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 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. For the measurement of imported goods in transit, selling exchange rate published by Raiffeisen Bank Polska S.A. as at the balance sheet date is adopted.

Inventories whose trading or useful value is impaired are written down. Inventory revaluation losses 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,
- doubtful receivables from a large group of small customers of underwear (overdue more than 6 months) – 30% of the amount receivable,
- doubtful receivables from other customers (overdue more than 6 months) – the debtor's financial situation is analysed in detail and if there is any reasonable doubt that the amount may be irrecoverable, a write-down is made for 100% of the amount receivable,
- other receivables – write-downs are made based on a case-by-case analysis and assessment of the situation and risk of potential loss.

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 purchase rate adopted as at this date by Raiffeisen Bank Polska S.A.

Short-term prepaid expenses

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 brought 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 brought forward)

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

Liabilities

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 the Company, 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 correction of the estimated cost of these returns. Based on the historical data, the ratio of product return to the total sales volume is estimated. For these estimates it is assumed that products purchased in a given quarter are returned in the next quarter. 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 LPP S.A. as set out in IAS 23, i.e. expensed immediately in the period when incurred.

Transactions in foreign currencies
The functional currency of LPP S.A. 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 National Bank of Poland for this currency as at the invoice date or specified in the respective customs document – in the case of a transaction document for or from a customer.

The following items denominated in foreign currencies are measured as at the balance sheet date:
- monetary items:
  - elements of assets – at the Company's bank purchase rate adopted as at this date,
  - elements of 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 (EPS) for each period is calculated by dividing net profit for the period by the weighted average number of shares of LPP S.A. in this period. The Company does not present diluted earnings/loss per share, as ordinary shares are not diluted.

Share-based payment
No share-based payment programme was implemented in the reporting period.

Hyperinflation

Under provisions of IAS 29 Financial Reporting in Hyperinflationary Economies, entities running their business 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 is justified, taking into account that it refers to events which occurred eight years ago or earlier, and the corresponding earnings had been distributed before this financial statement was drawn up. In addition, it is not clear whether such disclosure of the hyperinflationary restatement has any effects 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 Company's Management Board is of the opinion that the direct disclosure of this restatement in the balance sheet drawn up as at 30 June 2006 could be misleading for users of this financial statement, and decided to present relevant amounts, ratios, and conversion methods related to the hyperinflationary restatement in Note 14.8 to the consolidated financial statement for H1 2006.

Financial statements of LPP S.A. are drawn up based on the historical cost method.

Cash flow statement

For the purposes of the cash flow statement, the Company 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.

13. Financial risk management

The key financial risks for the Company's business activity are as follows:

a) currency risks
The majority of transactions related to trading commodities purchased by LPP S.A. involve payments denominated in foreign currencies (mostly in USD, a small portion in EURO).
Variability of the exchange rate of these currencies against PLN, which in turn is the currency of the majority of the Company's transactions of sale, are immaterial – according to the Management Board, it is unlikely to affect the Company's results.
Given the specific type of the Company's business, it is possible to partially transfer the risk of 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 transactions denominated in foreign currencies, there is yet another area where the Issuer's expenses may be affected by the EURO exchange rates: the majority of settlements related to contracts of lease of commercial premises where products are sold on the retail market. The above opinion of the Management Board on the immaterial impact of currency exchange rate variability applies also to the settlements under contracts of lease.

b) interest rate risks
Interest rate risks are related to bank credits utilised by LPP S.A. on a regular basis, as well as loans granted by the Company (on a small scale). Bank credits with floating interest rate create cash flow risk. As interest rates for the Polish currency are reduced, the Management Board of LPP S.A. decided to use bank credits denominated in PLN to a greater extent. The Management Board believes that interest rate changes will have no significant impact on the Company's results.

data in PLN '000

Fair value risk related to financial assets with fixed interest rate applies to loans granted by LPP S.A. to foreign subsidiaries (the total amount of loans plus interest as at the balance sheet date [without write-downs] is PLN 23,176 k) and to Polish third-party entities (not related parties) (in the total amount of PLN 237 k).

c) credit risk
LPP S.A. finances the development of its subsidiaries operating abroad by granting loans. These loans were mainly used in construction projects in the leased premises, i.e. development of a network of brand stores. As a result of changes in the methodology of estimation of revaluation write-downs of assets employed in the foreign subsidiaries (see section 11), some loans granted to foreign subsidiaries were written down (PLN 6,379 k).

Credit risk is related also to trade receivables, in the amount disclosed in the balance sheet, as well as guarantees granted to third parties.
The maximum credit risk is reflected by the carrying amount of loans and receivables.

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

Customer	share of receivables (%) in the total amount of receivables
LPP Czech Republic sro	34.7%
UAB LPP	10.8%
ZAO Re Trading	14.1%
LPP Retail Latvia Ltd	7.4%
LPP Estonia OU	6.0%
Non-related customer	5.9%
Other with debts representing less than 5% in the total amount of receivables	21.1%
Total net trade receivables	100.0%

As at 30 June 2006, the total value of bank guarantees granted at the request of and on the responsibility of LPP S.A. amounted to PLN 53,599.8 k, of which:

a) guarantees granted to secure agreements concluded by LPP S.A. – PLN 6,861.9 k
b) guarantees granted to secure agreements concluded by consolidated related parties – PLN 30,268.1 k
c) guarantees granted to secure agreements concluded by non-consolidated related parties – PLN 16,215.1 k
d) guarantees granted to secure agreements concluded by third parties – PLN 254.7 k

As at 30 June 2006, the total amount of all sureties issued by LPP S.A. totalled PLN 5,612 k, up by PLN 1,100 k compared to 31 December 2005.

No hedging instruments for the above financial risks and no hedge accounting are used by LPP S.A.

14. Critical accounting estimates and judgments

Estimates of the Management Board of LPP S.A. having an impact on the amounts disclosed in the financial statement refer to:

- the estimated economic useful life of property, plant and equipment,
- the ratio of product returns sold in the reporting period, occurring in the next reporting period,
- revaluation write-downs of assets,

- discount rates, 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 residual value of property, plant and equipment, as well as intangible 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 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 rates, 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 were changed in line with the adopted methodology:
- the estimated economic useful life of certain elements of property, plant and equipment – outlays in third-party assets (amended contract of lease) and anti-burglary systems (high wear and tear and technological
- 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.

NOTES TO THE FINANCIAL STATEMENT

13. Additional notes

13. 1. Tangible fixed assets (PP&E)

PP&E is depreciated on a straight-line basis based on the following depreciation rates:
- buildings, facilities and civil- and hydro-engineering structures: 5 – 33%,
- plant and machinery: 10 – 30%
- transport vehicles: 14 – 20%,
- other tangible fixed assets: 14 – 20%.

In the reporting period, the write-down of assets in a third-party building (PLN 329 k) was used, owing to the disposal of these assets.

Compensations related to tangible fixed assets received by LPP S.A. in H1 2006 amounted to PLN 62 k and were related mainly to the vehicle-related damage.

The Company has idle PP&E (temporarily out of use) with the initial carrying amount of PLN 967 k.

As at the balance sheet date, there are no restrictions for the use of PP&E and no security was established thereon.

LPP S.A. still uses fully amortised PP&E with the initial carrying amount of PLN 3,989 k.

As at 30 June 2006, the Company's contractual obligation related to the purchase of tangible fixed assets totalled PLN 17 k.

CHANGES IN PROPERTY, PLANT AND EQUIPMENT (by groups) in the period from 01-01-2006 to 30-06-2006 **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
a) opening balance gross value of PP&E	11 838	118 052	23 135	4 385	18 028	1 458	0	176 896
- increase	499	5 829	1 923	76	1 182	8 487	360	18 356
- decrease	0	1 443	429	93	356	8 034		10 355
b) closing balance gross value of PP&E	12 337	122 438	24 629	4 368	18 854	1 911	360	184 897
c) opening balance of accumulated depreciation	0	27 493	11 141	1 943	4 226	0	0	44 803
- depreciation	0	8 093	2 626	358	1 799	0		12 876
- decrease	0	1 040	369	63	129	0	0	1 601
d) closing balance accumulated depreciation	0	34 546	13 398	2 238	5 896	0	0	56 078
e) opening balance impairment losses	0	1 566	0	0	0	0	0	1 566
- decrease	0	329	0	0	0	0	0	329
f) closing balance impairment losses	0	1 237	0	0	0	0	0	1 237
Total net closing balance of PP&E	12 337	86 655	11 231	2 130	12 958	1 911	360	127 582

Impairment losses – items in the P&L account	amount
- increase – "Revaluation of non-financial assets"	0
- decrease – "Other operating revenues"	0

CHANGES IN PROPERTY, PLANT AND EQUIPMENT (by groups) in the period from 01-01-2005 to 31-12-2005 **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
a) opening balance gross value of PP&E	1 117	83 225	17 182	4 080	8 773	3 777	273	118 427
- increase	10 721	36 925	6 346	734	9 614	51 938	0	116 278
- decrease	0	2 098	393	429	359	54 257	273	57 809
b) closing balance gross value of PP&E	11 838	118 052	23 135	4 385	18 028	1 458	0	176 896
c) opening balance of accumulated depreciation		16 014	6 847	1 683	1 820	0	0	26 364
- depreciation	0	12 701	4 600	639	2 611	0	0	20 551
- decrease		1 222	306	379	205	0		2 112
d) closing balance accumulated depreciation	0	27 493	11 141	1 943	4 226	0	0	44 803
e) opening balance impairment losses		1 196	0	0	0	0	0	1196
- increase		806						806
- decrease		436				0		436
f) closing balance impairment losses	0	1 566	0	0	0	0	0	1 566
Total net closing balance of PP&E	11 838	88 993	11 994	2 442	13 802	1 458	0	130 527

Impairment losses – items in the P&L account	amount
- increase – "Revaluation of non-financial assets"	806
- decrease – "Other operating revenues"	43

13.2. Intangible assets

LPP S.A. has intangible assets constructed by the Company. They include development works amounting to PLN 197 k net as at the balance sheet date.
The Company has no intangible assets with unspecified useful life.
Intangible assets with determined useful life are amortised on a straight-line basis with the following rates:

- costs of completed development works (development costs): 33%
- acquired patents, licenses and similar rights: 6–50%

CHANGES IN INTANGIBLE ASSETS (by groups) in the period from 01-01-2006 to 30-06-2006
in PLN '000

	costs of completed R&D works	acquired patents, licenses and similar rights, including: total	software	intangible assets in progress	payments on account of intangible assets	total
a) gross opening balance of intangible assets	443	17 837	17 703	2 519	398	21 197
- increase	0	4 197	4 122	1 590	55	5 842
- decrease		17	17	4 018	338	4 373
b) gross closing balance of intangible assets	443	22 017	21 808	91	115	22 666
c) opening balance accumulated amortisation	172	6 919	6 817	0	0	7 091
- planned amortisation write-offs	74	1 206	1 157	0	0	1 280
- decrease		17	17			17
d) closing balance accumulated amortisation	246	8 108	7 957	0	0	8 354
e) opening balance impairment losses	0	0	0	0	0	0
- increase						0
- decrease						0
f) closing balance impairment losses	0	0	0	0	0	0
Total net closing balance of intangible assets	197	13 909	13 851	91	115	14 312

CHANGES IN INTANGIBLE ASSETS (by groups) in the period from 01-01-2005 to 31-12-2005
in PLN '000

	costs of completed R&D works	acquired patents, licenses and similar rights, including:		intangible assets in progress	payments on account of intangible assets	total
		total	software			
a) gross opening balance of intangible assets	443	15 869	15 762	1 754	0	18 066
- increase	0	1 980	1 953	2 624	398	5 002
- decrease		12	12	1 859	0	1 871
b) gross closing balance of intangible assets	443	17 837	17 703	2 519	398	21 197
c) opening balance accumulated amortisation	25	4 680	4 589	0	0	4 705
- planned amortisation write-offs	147	2 249	2 238	0	0	2 396
- decrease	0	10	10	0	0	10
d) closing balance accumulated amortisation	172	6 919	6 817	0	0	7 091
e) opening balance impairment losses	0	0	0	0	0	0
- increase						0
- decrease						0
f) closing balance impairment losses	0	0	0	0	0	0
Total net closing balance of intangible assets	271	10 918	10 886	2 519	398	14 106

Intangible assets are tested for impairment as at each balance sheet date. No impairment of intangible assets was identified as at 30 June 2006.
Amortisation of intangible assets is presented in the function format of the P&L account, together with other types of expenses, under the following items:

- costs of sales – PLN 126 k (H1 2006) and PLN 81 k (H1 2005),
- general administrative expenses – PLN 1,154 k (H1 2006) and PLN 1,071 k (H1 2005).

An important element of intangible assets is the computer software Retek, used as a sales support and goods management tool, compatible with the FK software. As at 30 June 2006, the carrying value of this software was PLN 11,696 k. Its expected useful life is estimated at 60 months from the balance sheet date.

As at 30 June 2006, the Company's contractual obligation related to the purchase of intangible assets totalled PLN 590 k.

The Company still uses fully amortised intangible assets with the initial carrying amount of PLN 2,823 k, including:

- software licenses: PLN 2,707 k
- other licenses: PLN 42 k
- copyrights: PLN 74 k.

As at the balance sheet date, there are no restrictions for the use of intangible assets and no security was established on intangible assets.

In the reporting period from 1 January to 30 June 2006, the Company made no outlays on R&D works.

13.3. Investments in subsidiaries

Investments of LPP S.A. in its subsidiaries include:
- shares in Polish and foreign subsidiaries including additional paid-in capital,
- loans granted.

LPP S.A. is the owner of 7 foreign subsidiaries building their retail sales networks abroad. The list of subsidiaries of LPP S.A. is presented in section 3 above. Some of these subsidiaries present profits in their individual statements, some record losses. In some cases equity is below zero.
In line with the adopted accounting policy, as per section 37 of IAS 27 „Consolidated and individual financial statement", investments in subsidiaries of LPP S.A. are carried at cost in the individual financial statement. In line with section 9 of IAS 36 "Impairment of assets", assets are tested for impairment as at each balance sheet date, including assets which are not measured as per IAS 39 (i.e. investments carried at cost).

The reduction of net profit of LPP S.A. for H1 2006, resulting from the total amount of write-downs of assets employed in foreign subsidiaries, taking into account its impact on the deferred part of income taxes, totals PLN 6,568 k, and was reflected in the following items in the P&L account:
- financial expenses – PLN 4,727 k related to write-downs of shares and loans,
- financial revenues – PLN 1,219 k related to reversed write-downs of shares and loans,
- other operating expenses – PLN 5,383 k related to write-downs of receivables from foreign subsidiaries,
- other operating revenues – PLN 677 k related to reversed write-downs of receivables from foreign subsidiaries.

Impairment write-downs of investments in foreign subsidiaries made in the individual financial statement have no impact on the consolidated financial statement, including the consolidated result.

The value of shares in foreign subsidiaries by cost (price of acquisition) and revaluation write-downs made as at 30 June 2006, as well as the comparative data, are presented in the tables below:

PLN '000

Name of the company	Total value of shares held		Amount of write-down	Carrying amount of shares as at 30 June 2006
	shares	additional paid-in capital		
LPP Retail Estonia OU	1 145			1 145
LPP Czech Republic sro	1 796		1 796	0
LPP Hungary KFT	466	5 929	6 395	0
LPP Retail Latvia Ltd	14		14	0
UAB "LPP"	12		12	0
LPP Ukraina AT	1 577		680	897
ZAO Re Trading	1 570		1 362	208
TOTAL	6 580	5 929	10 259	2 250

PLN '000

Name of the company	Total value of shares held		Amount of write-down	Carrying amount of shares as at 30 June 2006
	shares	additional paid-in capital		
LPP Retail Estonia OU	1 145			1 145
LPP Czech Republic sro	1 796		1 796	0

data in PLN '000

LPP Hungary KFT	466	3 416	3 882	0
LPP Retail Latvia Ltd	14		14	0
UAB "LPP"	12			12
LPP Ukraina AT	1 577		611	966
ZAO Re Trading	1 570			1 570
TOTAL	6 580	3 416	6 303	3 693

In addition to shares in foreign subsidiaries, LPP S.A. holds shares in its Polish subsidiaries. Their value as at the balance sheet date is PLN 718 k.

The amount of foreign currency loans granted to foreign subsidiaries, measured at adjusted cost using the effective interest rate totalled PLN 23,176 k as at the balance sheet date (compared to PLN 12,266 k as at 31 December 2005).
This amount was adjusted by revaluation write-downs totalling PLN 6,379 k (of which PLN 683 k related to accrued interest) of loans granted to the following companies:

- LPP Czech Republic sro – PLN 4,621 k,
- LPP Hungary KFT – PLN 1,410 k,
- UAB LPP – PLN 348 k.

data in PLN '000

LOANS REVALUATION WRITE-DOWN	30.06.2006	31.12.2005
Opening balance loans revaluation write-down	6 828	0
Revaluation write-downs of loans – increase recognised in the reporting period as financial expenses in the P&L account	689	6 828
Revaluation write-downs of loans – decrease recognised in the reporting period as financial revenues in the P&L account	1 138	0
Closing balance loans revaluation write-down	6 379	6 828

Loans granted to related parties were used to develop their business.

Name of the company	Loan maturity	Effective interest rate
LPP Czech Republic sro	31.12.2007	4.4974%
	31.12.2007	4.5163%
	31.12.2007	4.4459%
LPP Hungary KFT	31.12.2007	4.6182%
	31.12.2007	4.4780%
	31.12.2007	5.2335%
UAB LPP	31.12.2006	4.2564%
ZAO Re Trading	31.12.2008	5.9414%
	30.06.2009	6.1497%
	31.10.2009	5.1039 %
	31.12.2009	5.1029 %

Each loan will be repaid as defined in the relevant agreement, together with interest accrued for each day of loan utilisation. Maturity dates and effective interest rates for each loan granted to related parties are presented in the table above.
As at 30 June 2006, the total amount of loans granted to foreign subsidiaries presented in the financial statement of LPP S.A., without their revaluation write-downs, included:

- the principal amount PLN 22,003 k,
- interest PLN 1,173 k.

In addition, LPP S.A. granted a loan of PLN 237 k to one of its Polish business partners (PLN 273 k as at 31 December 2005). Under the agreement, interest (6% p.a.) and instalments of the principal amount are to be repaid in equal monthly instalments. The last instalment with interest is to be repaid on 31 March 2008.

Loans are presented in the individual balance sheet broken down into short- and long-term financial investments.

13.4. Financial instruments

Financial assets and liabilities recognised in the reporting period were carried as at the balance sheet date based on the following principles:

- at fair value – receivables and payables other than trade receivables and payables, bank deposits,
- carried at amortised cost – loans granted, trade receivables and payables, credits.

Loans granted are carried at adjusted cost using the effective interest rate.

Long-term bank credit was carried at the outstanding amount payable (principal amount plus interest payable as at the balance sheet date, calculated as specified in the contract), as the difference in measurement (compared to the amortised cost method) is immaterial.
Given their specific nature (no defined purpose of deposited funds), fixed-term deposits are classified by the Company as financial assets held for trading and carried at fair value in the balance sheet, while their associated interest is recognised in the P&L account. Taking into account short maturity of bank deposits and associated insignificant credit risk and interest rate risk, the nominal value of bank deposits is considered a sufficient approximation of fair value.

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

PLN '000

CHANGE IN FINANCIAL INVESTMENTS	loans granted		bank fixed-term deposits	
	2006	2005	2006	2005
as at 1 January	5 711	9 459	11 962	3 863
increase	12 523	2 097	142 164	669
- loan granted	10 553	1 209		
- interest	460	343		
- revaluation	1 510	545		
- deposits established			142 164	669
decrease	1 200	3 385	150 417	4 332
- loans repaid	193	2 933		
- interest repaid	143	370		
- revaluation	864	82		
- deposits closed			150 417	4 332
as at 30 June	17 034	8 171	3 709	200

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, as 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.
In the reporting period, there were no trade receivables and payables with the maturity over 120 days.
Receivables and payables classified as "other" are carried at fair value as at the balance sheet date.
As an active market does not exist, the Company 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.

13.5. Inventories

The total value of the Company's inventories includes mainly trading commodities. The detailed structure of inventories is presented in the table below.

PLN '000

INVENTORIES	30.06.2006	31.12.2005
- materials	1 546	2 397
- goods	149 410	152 382
- payments on account of deliveries	343	237
TOTAL	151 299	155 016

The carrying amount of inventories disclosed in the balance sheet was reduced by 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.

PLN '000

INVENTORIES REVALUATION WRITE-DOWN	30.06.2006	31.12.2005
Opening balance inventories revaluation write-down	455	1 553
Inventories revaluation write-downs – increase recognised in the reporting period under operating expenses in the P&L account	784	443
Inventories revaluation write-downs – decrease recognised in the reporting period under operating revenues in the P&L account	0	1 541
Closing balance inventories revaluation write-down	1 239	455

Trading commodities are also used as a collateral to secure a bank credit taken by the Company in BPH S.A. The value of these commodities is PLN 3,700 k and is used as a collateral to secure a multi-purpose credit line.

As at 30 June 2006, the amount of inventories expensed in the reporting period totalled PLN 165,308k.

13.6. Trade and other receivables

Detailed information on the structure of the Company's receivables is presented in the table below.

PLN '000

SHORT-TERM RECEIVABLES	30.06.2006	31.12.2005
a) from related parties	63 452	50 201
- trade receivables	63 452	50 201
b) from other entities	41 904	32 879
- trade receivables	29 611	26 861
- taxes, subsidies, customs duties and social security, health insurance and other benefits	4 284	22
- other	8 009	5 996
TOTAL	105 356	83 080

As at the balance sheet date, trade receivables from foreign customers totalled:

- USD 19,517 k, equal to PLN 60,960 k
- EUR 5,930 k, equal to PLN 23,558 k.

The total amount of short-term receivables as at 30 June 2006 was adjusted by the revaluation write-down of PLN 15,743 k (of which 10,755 k related to receivables from related parties).
Changes in the amount of revaluation write-downs in the reporting period and the comparative period are presented in the table below:

PLN '000

REVALUATION WRITE-DOWN OF RECEIVABLES	30.06.2006	31.12.2005
Opening balance revaluation write-down of receivables	11 410	6 255
Revaluation write-downs of receivables – increase recognised in the reporting period	5 986	7 751
Revaluation write-downs of receivables – decrease recognised in the reporting period	1 653	2 596
Closing balance revaluation write-down of receivables	15 743	11 410

13.7 Cash

PLN '000

CASH	30.06.2006	31.12.2005
Cash in hand and cash in banks	6 320	8 378
Other cash	3 709	11 962
TOTAL	10 029	20 340

Other cash includes short-term deposits. These deposits are established for a fixed term (from one day up to one month, depending on the Company's needs) and are measured as at the balance sheet date based on their respective interest rates.

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

PLN '000

CASH – CURRENCY STRUCTURE	30.06.2006	31.12.2005
in the Polish currency	5 623	16 255
in foreign currencies (by currency and converted into PLN)	4 406	4 085
- USD	1 215	1 159
PLN '000	3 794	3 670
- RMB	28	133
PLN '000	11	52
- EUR	151	96
PLN '000	601	363
TOTAL	10 029	20 340

Unused borrowings held by LPP S.A. as at 30 June 2006 totalled PLN 136,013 k.

In the period from 1 January to 30 June 2006, the Company made non-cash settlements with its customers (in the form of set-off of payables and receivables) in the amount of PLN 807 k.

data in PLN '000

13.8 Equity

Share capital
As at 30 June 2006, the Company's share capital amounted to PLN 3,407 k and was divided into 1,703,500 shares of nominal value PLN 2.00 per share. In the 6-month period ended on 30 June 2006, the number of shares did not change.

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

Series/issue	Type of shares	Type of preference	Type of limitation of rights to shares	Number of shares	Value of the issue
A	bearer shares	common (ordinary)	none	100	200
B	registered shares	preference	none	350 000	700 000
C	bearer shares	common (ordinary)	none	400 000	800 000
D	bearer shares	common (ordinary)	none	350 000	700 000
E	bearer shares	common (ordinary)	none	56 700	113 400
F	bearer shares	common (ordinary)	none	56 700	113 400
G	bearer shares	common (ordinary)	none	300 000	600 000
H	bearer shares	common (ordinary)	none	190 000	380 000
TOTAL NUMBER OF SHARES				1 703 500	

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 30 June 2006 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	281 876	981 876	31.64%	16.55%	563 752
Jerzy Lubianiec	276 039	976 039	31.45%	16.20%	552 078
Grangefont Limited, headquartered in London, UK	350 000	350 000	11.28%	20.55%	700 000
Other shareholders	795 585	795 585	25.6%	46.7%	1 591 170
TOTAL	1 703 500	3 103 500	100.0%	100.0%	3 407 000

Reserve capital
The Company's reserve capital presented under liabilities in the balance sheet as at 30 June 2006 was created from net profit brought forward from previous years, share issue premium, and as a result of measurement of share-based payments.
Part of the reserve capital established as a write-off from the financial result was created on a statutory basis under Art. 396 of the Code of Commercial Companies and may be used in the future only to offset a loss (if any).

The structure of reserve capital is as follows:

PLN '000

TYPE OF RESERVE CAPITAL	30 June 2006	31 December 2005
created on a statutory basis based on the write-off from financial result	1 136	1 136
created as per the Articles of Association based on the write-off from financial result	158 765	126 868
created from share issue premium	71 202	71 202
created from share-based payments	1 050	1 050
TOTAL	232 153	200 256

The Company's equity in the hyperinflationary period

Conversion of the equity from the hyperinflationary period was based on the following data:

6. the Company was established on 18 December 1989 with the initial capital of PLN 200.00 (after currency denomination);
7. On 4 May 1995, the Company was taken over by Marek Piechocki and Jerzy Lubianiec;
8. The increase of share capital up to PLN 700 k was registered on 12 April 1995;
9. On 24 October 1995, a resolution was adopted to increase the Company's share capital up to PLN 1,500 k;
10. On 4 January 1996, a resolution was adopted to increase the Company's share capital to PLN 2,200 k.

in 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 the equity conversion was PLN 847 k.

13.9 Grants

As at 30 June 2006, the Company 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.

13.10 Provisions

Provision for retirement benefits is estimated by the Company based on actuarial methods.
Provision for holiday leaves not taken is created for the future employee benefits payable by the Company to employees for their services rendered in the reporting period.

PLN '000

	Provision for retirement benefits and similar benefits	Provision for holiday leaves not taken
As at 1 January 2006	287	294
- provision established	38	465
- provision reversed	0	286
As at 30 June 2006	325	473

13.11 Contingent liabilities

In H1 2006, Capital Group companies used bank guarantees to secure payment of rent for leased retail premises where brand stores are located.

As at 30 June 2006, the total value of bank guarantees granted at the request of and on the responsibility of LPP S.A. amounted to PLN 53,599.8 k, of which:

- guarantees granted to secure agreements concluded by LPP S.A. – PLN 6,861.9 k
- guarantees granted to secure agreements concluded by consolidated related parties – PLN 30,268.1 k
- guarantees granted to secure agreements concluded by non-consolidated related parties – PLN 16,215.1 k
- guarantees granted to secure agreements concluded by third parties – PLN 254.7 k.

As at 30 June 2006, the total amount of all sureties issued by the parent company totalled PLN 5,612k, up by PLN 1,100 k compared to 31 December 2005.
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.

13.12. Future liabilities arising from retail lease agreements

LPP S.A. is party to lease agreements providing for the use of retail premises where Cropp Town and Reserved brand stores are located.
The amount of rent charged to expenses of the reporting period is PLN 32,573 k. This amount includes both minimum rent and contingent rent depending on the sales volume. The amount of contingent rent is immaterial and was not presented separately.

Total future minimum payments under contracts of lease, estimated as at 30 June 2006, are as follows:
- payables with the maturity date within 12 months from the balance sheet date PLN 65,826 k
- payables with the maturity date from 12 months to 5 years from the balance sheet date PLN 181,963k
- payables with the maturity date over 5 years from the balance sheet date PLN 53,203 k

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 in the store is generated. Contingent rent is calculated as a percentage of these revenues. In the reporting period, the amount of contingent rent was immaterial and represented only 0.25% of the total amount of rent. Retail lease agreements also contain adjustment clauses, linking the amount of rent with 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.

13.13 Borrowings (credits)

As at 30 June 2006, the Company's payables related to bank credits were as follows:

Bank	Utilisation of credits as at 30 June 2006		Credit costs	Maturity date
	in PLN '000	currency in '000		
PKO BP S.A.	67 702		WIBOR 1 m + bank's margin	30-05-2008
BPH S.A.	29 272		WIBOR 1 m + bank's margin	31-07-2006
Fortis Bank Polska S.A.	402	USD 123	LIBOR 1 m + bank's margin	26-01-2007
Fortis Bank Polska S.A.	10 346		WIBOR 1 m + bank's margin	26-01-2007
Raiffeisen Bank Polska S.A.	985	USD 301	LIBOR 1 m + bank's margin	31-05-2008
Raiffeisen Bank Polska S.A.	25 280		WIBOR 1 m + bank's margin	31-05-2008
TOTAL	133 987			

Bank credits amounted to PLN 133,987 k, of which:
- long-term credits – PLN 11,000 k
- short-term credits – PLN 122,987 k.

The amount of PLN 11,000 k represents a long-term credit incurred in Raiffeisen Bank Polska S.A.

As at 31 December 2005, the Group's payables related to bank credits were as follows:

Bank	Utilisation of credits as at 31 December 2005		Credit costs	Maturity date
	in PLN '000	currency in '000		
BPH S.A.	35 637		WIBOR 1 m + bank's margin	31-07-2006
Fortis Bank Polska SA	21 193		WIBOR 1 m + bank's margin	26-01-2007
Raiffeisen Bank Polska S.A.	1 019	USD 300	LIBOR 1m + bank's margin	30-04-2007
Raiffeisen Bank Polska S.A.	20 793		WIBOR 1 m + bank's margin	30-04-2007
PKO BP S.A.	54 791		WIBOR 1 m + bank's margin	30-05-2008
TOTAL	133 433			

Bank credits amounted to PLN 133,433 k, of which:

- long-term credits – PLN 11,000 k
- short-term credits – PLN 122,433 k.

The amount of PLN 11,000 k represents a long-term credit incurred in Raiffeisen Bank Polska S.A.

Detailed data on bank credits is as follows:

Bank	Type of credit/line	Credit amount and currency		Security
		in '000	currency	
Millenium	Guarantee line	17 000	PLN	blank promissory note
PKO BP S.A.	Multi-purpose multi currency credit line	100 000	PLN	blank promissory note
BPH S.A.	Multi-purpose multi currency credit line	100 000	PLN	transfer of ownership rights to goods – PLN 3,700 k, assignment of rights from the insurance policy, blank promissory notes
Fortis Bank Polska S.A.	Credit limit – multi-currency	100 000	PLN	blank promissory note
Raiffeisen Bank Polska S.A.	Multi-purpose multi currency credit line	100 000	PLN	blank promissory note
TOTAL		PLN 417 000		

13.14 Trade and other payables

PLN '000

SHORT-TERM PAYABLES	30.06.2006	31.12.2005
a) in respect of related parties	1 202	2 010
- trade receivables	1 202	2 010
b) in respect of other entities	67 662	43 391
- trade receivables	60 571	41 078
- taxes, customs duties, insurance and other benefits	7 047	2 302
- other	44	45
TOTAL	68 864	45 436

Trade payables are settled within 3 months.
As at the balance sheet date, trade payables in respect of foreign suppliers totalled:

- USD 14,231 k, equal to PLN 46,594 k
- EUR 331 k, equal to PLN 1,376 k
- HDK 196 k, equal to PLN 80 k.

13.15 Prepaid expenses

Long-term prepaid expenses as at 30 June 2006 totalled PLN 88 k, of which prepaid commission on bank credits represented the highest amount.
Short-term prepaid expenses as at 30 June 2006 totalled PLN 2,496 k, of which:

PREPAID EXPENSES	30.06.2006	31.12.2005
Prepaid rent for the lease of retail premises to be settled within 12 months from the balance sheet date	1 714	1 407
Costs of customs guarantees and insurance	22	405
Supervision of software	286	59
Commissions on bank credits	156	143
Write-off to the Site Social Fund	184	0
Other	134	305
TOTAL	2 496	2 319

13.16 Revenues

PLN '000

REVENUES	01.01.06-30.06.06	01.01.05-30.06.05
1) net revenues from sales of services	3 464	2 698
2) net revenues from sales of goods and materials	296 692	283 063
TOTAL	300 156	285 761

Revenues from sales of services include:

- revenues from sale of know-how concerning the management of brand stores by Polish and foreign contractors,
- revenues from the lease of the Company's own transport vehicles.

PLN '000

OTHER OPERATING REVENUES	01.01.06-30.06.06	01.01.05-30.06.05
1. Profit from sale of non-financial fixed assets	13	21
2. Grants	127	124
3. Other operating revenues, of which:	2 484	1 947
- reversal of revaluation write-downs	1 252	1 238
TOTAL	2 624	2 092

PLN '000

FINANCIAL REVENUES	01.01.06-30.06.06	01.01.05-30.06.05
1. Interest, including:	644	728
- from related parties	453	227
2. Dividends	1 137	
3. Revaluation of investments	1 219	
2. Other, including:	1 944	608
- balance of foreign exchange differences	1 926	587
TOTAL	4 944	1 336

13.17 Expenses

PLN '000

EXPENSES BY TYPE	01.01.06-30.06.06	01.01.05-30.06.05
1) depreciation and amortisation	14 157	10 175
2) consumption of materials and energy	8 062	8 174
3) outsourced services	85 703	75 300
4) taxes and fees	669	672
5) remuneration	12 800	10 901
6) social security and other benefits, including:	2 781	2 325
- pension contribution	1 071	919
7) other expenses (by type)	11 876	9 157
TOTAL	136 048	116 704
Change in products	180	-203
Selling costs and general administrative expenses recognised in the profit and loss account	136 228	116 501

PLN '000

OTHER OPERATING EXPENSES	01.01.06-30.06.06	01.01.05-30.06.05
1) Revaluation of non-financial assets, including:	6 607	1 157
- revaluation write-downs of receivables from related parties	5 383	
2) Other, including:	2 656	1 558
- donations	956	279
- losses in current assets	1 041	967
- costs of maintenance, repairs, and lost PP&E	485	140
TOTAL	9 263	2 715

PLN '000

FINANCIAL EXPENSES	01.01.06-30.06.06	01.01.05-30.06.05
1) Interest	3 045	2 585
2) Revaluation of investments, including:	4 727	
- revaluation write-downs of shares	4 727	
3) Other, including:	289	270
- commissions on bank credits and guarantees	289	270
TOTAL	8 061	2 855

13.18 Income tax

The main elements of taxation for H1 2006 and H1 2005 are as follows:

PLN '000

Profit and loss account	H1 2006	H1 2005
Current income tax	492	3 931
Deferred income tax	(1 595)	1 923
TOTAL	(1 103)	5 854

Reconciliation of income tax on the financial result before tax at the statutory tax rate with income tax presented in the profit and loss account for the period from 1 January to 30 June 2006 (and 2005) is presented in the table below.

PLN '000

CURRENT INCOME TAX	H1 2006	H1 2005
Gross profit/loss	(5 710)	30 201
Non-taxable non-temporary differences	(369)	636
Gross profit/loss before tax	(6 079)	30 837
Income tax at the statutory 19% rate	(1 155)	5 859
Adjustment of income tax from previous years	0	22
Adjustment of depreciation-related temporary differences	107	0
Tax relief	(55)	(35)
Other	0	8
Income tax disclosed in the P&L account	(1 103)	5 853

The amount of deferred income tax assets and provision recognised in the balance sheet results from the items and amounts presented in the table below.

		PLN '000
DEFERRED INCOME TAX ASSETS	30.06.2006	31.12.2005
surplus of balance sheet depreciation of PP&E over tax-based depreciation	1 520	1 152
foreign exchange differences – payables	276	505
revaluation of trade receivables	2 552	1 713
measurement of loans granted	166	201
revaluation of PP&E	235	288
revaluation of investments	1 949	1 198
revaluation of inventory	235	87
other temporary differences	538	439
TOTAL	7 471	5 583

		PLN '000
PROVISION FOR DEFERRED INCOME TAX	30.06.2006	31.12.2005
accelerated tax-based depreciation (capital cost allowance)	3 576	3 393
outstanding interest on loans granted	223	163
damages not received	45	0
other	56	51
TOTAL	3 900	3 607

Deferred income tax recognised in the P&L account as at 30 June 2006 and 30 June 2005 resulted from the following items:

		PLN '000
DEFERRED INCOME TAX ASSETS	30.06.2006	30.06.2005
surplus of balance sheet depreciation of PP&E over tax-based depreciation	369	250
foreign exchange differences – payables	(229)	(886)
revaluation of trade receivables	839	(23)
measurement of loans granted	(35)	(82)
revaluation of PP&E	(53)	4
revaluation of investments	800	0
revaluation of inventory	149	(36)
other temporary differences	48	57
TOTAL	1 888	(716)

		PLN '000
PROVISION FOR DEFERRED INCOME TAX	30.06.2006	30.06.2005
accelerated tax-based depreciation (capital cost allowance)	183	1 238
outstanding interest on loans granted	60	(5)
damages not received	45	0
other	5	(26)
TOTAL	293	1 207

13.19. Related-party transactions

The Company's related parties include:

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

13.20.1. Key management personnel

The Company's key management personnel include members of the Management Board and Supervisory Board.
The amount of short-term employee benefits received by key management personnel for the period from 1 January to 30 June 2006 was PLN 546 k. Compensation of each member of key management personnel was as follows:
President of the Management Board – PLN 180k,
Vice-President of the Management Board – PLN 120 k,
Vice-President of the Management Board – PLN 120 k,
Vice-President of the Management Board – PLN 120 k,
Chairman of the Supervisory Board – PLN 6k (for services other than membership in the Supervisory Board).

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

As at the balance sheet date, no material transactions between LPP and members of its key management personnel were recorded.

13.20.2 Related party transactions

PLN '000

No.	RELATED PARTIES	payables as at 30 June 2006	receivables as at 30 June 2006	revenues in H1 2006	expenses in H1 2006
1.	Polish subsidiaries – total	1 202	0	48	21 229
2.	Foreign subsidiaries – total	0	74 207	34 851	
TOTAL		1 202	74 207	34 899	21 229

PLN '000

No.	RELATED PARTIES	payables as at 30 June 2005	receivables as at 31 December 2005	revenues in H1 2005	expenses in H1 2005
1.	Polish subsidiaries – total	1 920	242	46	16 818
2.	Foreign subsidiaries – total	79	57 924	22 432	
TOTAL		1 999	58 166	22 478	16 818

Amounts presented in the table show only intercompany transactions between LPP S.A. and its related parties, and are presented from the point of view of the parent company.
Data presented as payables of LPP S.A. are 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, and revenues from foreign companies are generated from the sale of goods and services.
Expenses related to Polish subsidiaries are connected with lease of premises for Cropp Town and Reserved brand stores.
Payment terms adopted for subsidiaries are between 45 and 120 days.
In addition, LPP S.A. granted loans to foreign subsidiaries to finance the development of the Reserved and Cropp networks. Data on receivables arising from these loans are presented in section 13.3 "Investments in subsidiaries".

13.21 Business segments

The Capital Group is running only one type of business (one core segment). Two geographical segments have been identified: business within and outside the European Union. Division into geographical segments was based on the criterion of location of the Group's assets.
Under IAS 34 "Interim financial reporting", LPP Capital Group is under no obligation to disclose its financial data broken down into segments in this half-year report.