

LPP S.A. Group
Interim condensed financial statement for Q3 FY06
The financial statement has been executed in PLN '000

LPP S.A. Group
Interim condensed financial statement for Q3 FY06

Gdańsk
November 2006

1. Selected consolidated financial data

Selected financial data	01/01/2006-	01/01/2005-	01/01/2006-	01/01/2005-
	30/09/2006	30/09/2005	30/09/2006	30/09/2005
	in PLN '000		in EUR '000	
Net revenues from sales of products, goods and materials	528 020	473 285	134 799	116 621
Operating profit (loss)	-3 531	35 174	-901	8 667
Profit (loss) before tax	-2 636	31 024	-673	7 645
Net profit (loss)	-3 781	23 337	-965	5 750
Net cash flow from operations	25 560	12 486	6 525	3 077
Net cash flow from investments	-42 813	-55 659	-10 930	-13 715
Net cash flow from financial activity	8 144	39 673	2 079	9 776
Total net cash flow	-9 109	-3 500	-2 325	-862

Selected financial data	01/01/2006-	01/01/2005-	01/01/2006-	01/01/2005-
	30/09/2006	30/09/2005	30/09/2006	30/09/2005
	in PLN '000		in EUR '000	
Total assets	505 564	416 194	126 915	106 264
Long-term payables	15 476	5 120	3 885	1 307
Short-term payables	261 361	195 745	65 611	49 978
Equity	228 162	214 655	57 277	54 806
Share capital	3 407	3 407	855	870
Number of shares	1 703 500	1 703 500	1 703 500	1 703 500
Profit (loss) per ordinary share (EPS) (in PLN/EURO)	-2,22	13,70	-0,58	3,41
Book value per share – BVPS (in PLN/EURO)	133,94	126,01	34,03	30,86

2. Consolidated balance sheet

Balance sheet	as at the end of:		
	Q3 FY06 30/09/2006	Q3 FY05 30/09/2005	previous year 31/12/2005
ASSETS			
Fixed assets	<i>213 324</i>	<i>167 987</i>	<i>195 431</i>
1. Tangible fixed assets (PP&E)	191 771	148 575	175 138
2. Intangible assets	13 970	13 826	14 436
3. Investments	895	896	876
4. Receivables	254	192	187
5. Deferred income tax assets	6 392	3 957	4 356
6. Prepaid expenses	42	541	438
Current assets	<i>292 240</i>	<i>248 207</i>	<i>239 305</i>
1. Inventories	211 629	198 440	171 566
2. Trade and other receivables	59 433	35 719	37 653
3. Prepaid expenses	2 793	1 950	2 604
3. Investments	128	106	116
5. Cash and cash equivalents	18 257	11 992	27 366
Total assets	505 564	416 194	434 736

LIABILITIES

Equity	228 162	214 655	232 450
1. Share capital	3 407	3 407	3 407
2. Reserve capital	232 265	199 319	200 368
3. Other reserves	83	1	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	-3 781	23 337	40 053
6. Revaluation reserve	0	0	0
7. Foreign exchange differences (conversion of related parties)	-9	442	472
Long-term payables	15 476	5 120	15 058
1. Bank credits and loans	11 000	1 376	11 000
2. Provisions	342	310	287
3. Deferred income tax provision	4 118	3 386	3 733
4. Other long-term payables	16	48	38
Short-term payables	261 361	195 745	186 216
1. Trade and other payables	118 410	77 964	56 134
2. Bank credits and loans	141 725	116 024	126 562
3. Income tax	8	757	2 451
4. Provisions	934	739	928
5. Special funds	284	261	141
Prepaid expenses	565	674	1 012
TOTAL LIABILITIES	505 564	416 194	434 736
Book value	228 162	214 655	232 450
<i>Number of shares</i>	1 703 500	1 703 500	1 703 500
Book value per share – BVPS (in PLN)	133,94	126,01	136,45

3. Consolidated profit and loss account

Profit and loss account	YTD		YTD	
	current year 01/01/2006- 30/09/2006	Q3 2006 01/07/2006- 30/09/2006	previous year 01/01/2005- 30/09/2005	Q3 2005 01/07/2005- 30/09/2005
Revenues from sales	528 020	203 278	473 285	168 382
Selling costs	252 770	97 864	214 394	79 565
Profit/loss on sales before tax	275 250	105 414	258 891	88 817
Other operating revenues	3 128	920	3 233	1 047
Costs of sales	240 068	84 408	192 554	69 278
General administrative expenses	35 185	12 464	29 087	10 080
Other operating expenses	6 656	2 126	5 309	1 799
Operating profit (loss)	-3 531	7 336	35 174	8 707
Financial revenues	6 388	103	647	118
Financial expenses	5 493	1 920	4 797	-317
Gross Profit/loss	-2 636	5 519	31 024	9 142
Taxes	1 145	1 492	7 687	1 967
Net profit/loss	-3 781	4 027	23 337	7 175
Weighted average number of ordinary shares	1 703 500	1 703 500	1 703 500	1 703 500
Profit (loss) per ordinary share (EPS) (in PLN)	(2,22)	2,36	13,70	4,21

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.

4. Statement of changes in shareholders' equity

	Share capital	Reserve capital	Other reserves	Retained profit/accumulated loss brought forward from previous years	Net profit/loss of the reporting period	Revaluation of related reserve	Foreign exchange differences – conversion of related parties	Total equity
As at 1 January 2005	3 407	151 236	1	36 184	0	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	0	-9	190 867
Foreign exchange differences after conversion of related parties							451	451
Measurement of long-term investments		48 083		-48 083		0		0
Distribution of FY04 net profit					23 337			23 337
Net profit for 3 quarters FY05								
As at 30 September 2005	3 407	199 319	1	-11 851	23 337	0	442	214 655
As at 1 January 2006	3 407	200 368	1	28 202	0	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	0	472	232 424
Foreign exchange differences after conversion of related parties							-481	-481
Distribution of retained earnings from previous years		31 897	82	-31 979				0

5. Consolidated cash flow statement

Cash flow statement	YTD	Q3 2006	YTD	Q3 2005
	01/01/2006- 30/09/2006	01/07/2006- 30/09/2006	01/01/2005- 30/09/2005	01/07/2005- 30/09/2005
A. Cash flow from operations - indirect method				
I. Profit (loss) before tax	-2 636	5 519	31 024	9 142
II. Total adjustments	28 196	4 188	-18 538	-11 677
1. Amortisation and depreciation	30 780	11 079	21 902	8 351
2. Foreign exchange (gains) losses	310	385	446	-717
3. Interest and share in profits (dividends)	2 984	1 400	3 523	1 310
4. (Profit) loss from investments	378	115	614	370
5. Income tax paid	-9 929	-2 738	-10 615	-1 854
6. Change in provisions	42	-274	130	-158
7. Change in inventories	-39 312	-38 143	-66 763	-27 235
8. Change in receivables	-19 377	-6 639	-10 881	-6 488
9. Change in short-term payables, excluding credits and loans	63 328	39 674	43 042	14 214
10. Change in prepaid expenses, accruals and deferred income	-228	-40	963	1 063
11. Other adjustments	-780	-631	-899	-533
III. Net cash flow from operations (I+/-II)	25 560	9 707	12 486	-2 535
B. Cash flow from investments				
I. Inflows	1 815	387	315	114
1. Sale of intangible assets and tangible fixed assets (PP&E)	599	351	258	25
2. From financial assets, including:	1 216	36	56	21
a) in related parties	1 136	0	0	0
- dividends and share in profits	1 136	0	0	0
b) in other entities	80	36	56	21
- repayment of long-term loans granted				
- interest	14	6	9	3
- repayment of short-term loans granted	66	30	47	18
3. Other inflows from investments		0	1	68

II. Outflows	44 703	16 652	55 974	13 234
1. Acquisition of intangible assets and tangible fixed assets (PP&E)	44 605	16 553	55 884	13 234
2. On financial assets, including:	98	98	76	0
a) in related parties	0	0	76	0
- acquisition of shares, additional paid-in capital			76	0
b) in other entities	98	98	0	0
- acquisition of financial assets	98	98		0
3. Other outflows on investments	0	1	14	0
III. Net cash flow from investments (I-II)	-42 888	-16 265	-55 659	-13 120
C. Cash flow from financial activity				
I. Inflows	24 770	21 720	45 242	17 161
1. Borrowings (credits and loans)	24 770	21 720	45 237	17 161
2. Other financial inflows	0	0	5	0
II. Outflows	16 626	11 762	5 569	1 856
1. Repayment of credits and loans	12 042	10 245	1 572	783
2. Payments related to finance lease agreements			36	12
3. Interest	4 584	1 517	3 611	1 061
4. Other financial outflows	0		350	
III. Net cash flow from financial activity (I-II)	8 144	9 958	39 673	15 305
D. Total net cash flow (A.III+/-B.III+/-C.III)	-9 184	3 400	-3 500	-350
E. Total cash flow balance, including:	-9 109	3 401	-3 500	-350
- change in cash – foreign exchange differences	-833	-658	-782	-440
F. Opening cash balance	27 366	14 856	15 492	12 342
G. Closing cash balance (F+/-D), including:	18 257	18 257	11 992	11 992
- restricted cash	287	287	262	262

6. Selected financial data – individual statement

Selected financial data	Q3 FY06	Q3 FY05	Q3 FY06	Q3 FY05
	01/01/2006- 30/09/2006 in PLN '000	01/01/2005 30/09/2005	01/01/2006- 30/09/2006 in EUR '000	01/01/2005 30/09/2005
Net revenues from sales of products, goods and materials	485 392	437 787	123 916	107 874
Operating profit (loss)	5 915	41 107	1 510	10 129
Profit (loss) before tax	-1 268	39 571	-324	9 751
Net profit (loss)	-1 051	31 957	-268	7 874
Net cash flow from operations	14 527	-2 616	3 709	-645
Net cash flow from investments	-28 352	-40 624	-7 238	-10 010
Net cash flow from financial activity	3 692	40 165	943	9 897
Total net cash flow	-10 133	-3 075	-2 587	-758

Selected financial data	Q3 FY06	Q3 FY05	Q3 FY06	Q3 FY05
	01/01/2006- 30/09/2006 in PLN '000	01/01/2005 30/09/2005	01/01/2006- 30/09/2006 in EUR '000	01/01/2005 30/09/2005
Total assets	488 846	426 555	122 718	108 910
Long-term payables	15 269	5 076	3 833	1 296
Short-term payables	238 976	186 674	59 991	47 662
Equity	234 048	234 135	58 754	59 780
Share capital	3 407	3 407	855	870
Number of shares	1 703 500	1 703 500	1 703 500	1 703 500
Profit (loss) per ordinary share (EPS) (in PLN/EURO)	-6,82	4,65	-1,77	1,16
Book value per share – BVPS (in PLN/EURO)	131,19	123,36	33,33	30,21
Dividend per share – declared or paid (in PLN/EURO)				

7. Balance sheet

Balance sheet	as at the end of:		
	Q3 FY06 30/09/2006	Q3 FY05 30/09/2005	previous year 31/12/2005
ASSETS			
Fixed assets	168 240	149 520	160 477
1. Tangible fixed assets (PP&E)	126 156	114 133	130 527
2. Intangible assets	13 604	13 496	14 106
3. Investments	19 321	18 032	9 636
4. Receivables	254	192	187
5. Deferred income tax assets	8 863	3 126	5 583
6. Prepaid expenses	42	541	438
Current assets	320 606	277 035	261 242
1. Inventories	185 072	188 466	155 016
2. Trade and other receivables	122 487	78 040	83 080
3. Prepaid expenses	2 446	1 691	2 319
3. Investments	394	602	487
5. Cash and cash equivalents	10 207	8 236	20 340
Total assets	488 846	426 555	421 719

LIABILITIES

Equity	234 048	234 135	235 126
1. Share capital	3 407	3 407	3 407
2. Reserve capital	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	-1 051	31 957	31 897
5. Revaluation reserve	0	0	
Long-term payables	15 269	5 076	14 894
1. Bank credits and loans	11 000	1 376	11 000
2. Provisions	342	309	287
3. Deferred income tax provision	3 927	3 391	3 607
Short-term payables	238 976	186 674	170 697
1. Trade and other payables	107 795	73 390	45 436
2. Bank credits and loans	130 579	111 907	122 433
3. Income tax	0	756	2 393
4. Provisions	318	360	294
5. Special funds	284	261	141
Prepaid expenses	553	670	1 002
TOTAL LIABILITIES	488 846	426 555	421 719
Book value	234 048	234 135	235 126
Number of shares	1 703 500	1 703 500	1 703 500
Book value per share – BVPS (in PLN)	137,39	137,44	138,03

8. Profit and loss account

Profit and loss account	YTD	Q3 2006	YTD	Q3 2005
	current year		previous year	
	01/01/2006- 30/09/2006	01/07/2006- 30/09/2006	01/01/2005- 30/09/2005	01/07/2005- 30/09/2005
Revenues from sales	485 392	185 236	437 787	152 026
Selling costs	261 045	101 163	214 348	77 431
Profit/loss on sales before tax	224 347	84 073	223 439	74 595
Other operating revenues	3 839	1 215	3 101	1 010
Costs of sales	181 389	62 323	157 831	56 530
General administrative expenses	25 896	8 734	23 187	7 987
Other operating expenses	14 986	5 723	4 415	1 700
Operating profit (loss)	5 915	8 508	41 107	9 388
Financial revenues	4 303	-641	2 687	1 351
Financial expenses	11 486	3 425	4 223	1 368
Profit/loss before tax	-1 268	4 442	39 571	9 371
Taxes	-217	886	7 614	1 760
Net profit/loss	-1 051	3 556	31 957	7 611
Weighted average number of ordinary shares	1 703 500	1 703 500	1 703 500	1 703 500
Profit (loss) per ordinary share (EPS) (in PLN)	(0,62)	2,09	18,76	4,47

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.

9. 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	202 130
- corrections of errors from previous years			48			48
As at 1 January 2005 after corrections	3 407	151 172	47 599	0	0	202 178
Distribution of FY04 profit		48 033	-48 033		0	0
Net profit for 3 quarters FY05				31 957		31 957
As at 30 September 2005	3 407	199 205	-434	31 957	0	234 135
As at 1 January 2006	3 407	200 256	31 463			235 126
- corrections of errors from previous years			-27			-27
As at 1 January 2006 after corrections	3 407	200 256	31 436	0	0	235 099
Distribution of FY05 profit		31 897	-31 897			0
Net loss for 3 quarters FY06				-1 051		-1 051
As at 30 September 2006	3 407	232 153	-461	-1 051	0	234 048

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10. Cash flow statement

Cash flow statement	YTD	Q3 2006	YTD	Q3 FY05
	01/01/2006- 30/09/2006	01/07/2006- 30/09/2006	01/01/2005- 30/09/2005	01/07/2005- 30/09/2005
A. Cash flow from operations - indirect method				
I. Gross profit (loss)	-1 268	4 442	39 571	9 371
II. Total adjustments	15 795	-5 411	-42 187	-18 368
1. Amortisation and depreciation	21 625	7 467	16 316	6 140
2. Foreign exchange (gains) losses	305	507	-4	-632
3. Interest and share in profits (dividends)	2 559	1 223	3 132	1 253
4. (Profit) loss from investments	5 156	1 398	496	325
5. Income tax paid	-9 594	-2 690	-10 441	-1 850
6. Change in provisions	79	-138	36	6
7. Change in inventories	-30 061	-33 773	-66 411	-28 982
8. Change in receivables	-39 473	-17 130	-30 489	-7 779
9. Change in short-term payables, excluding credits and loans	65 379	37 604	44 278	12 172
10. Change in prepaid expenses, accruals and deferred income	-180	121	900	979
11. Other adjustments	0	0	0	0
III. Net cash flow from operations (I+/-II)	14 527	-969	-2 616	-8 997
B. Cash flow from investments				
I. Inflows	2 570	879	3 163	51
1. Sale of intangible assets and tangible fixed assets (PP&E)	564	345	250	25
2. From financial assets, including:	2 006	534	2 911	26
a) in related parties	1 929	500	2 855	4
- repayment of short-term loans	478	321	1 599	0
- dividends	1 136	0	0	0
- interest	315	179	261	4
- repayment of long-term loans granted	0	0	995	0
b) in other entities	77	34	56	22
- repayment of short-term loans granted	66	30	47	18
- interest	11	4	9	4
3. Other inflows from investments	0	0	2	0
II. Outflows	30 922	5 797	43 787	7 483
1. Acquisition of intangible assets and tangible fixed assets (PP&E)	16 125	4 067	41 066	7 483
2. On financial assets, including:	14 797	1 730	2 707	0

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a) in related parties	14 699	1 632	2 707	0
- acquisition of shares and additional paid-in capital	2 513	0	1 498	0
- long-term loans granted	12 186	1 632	481	0
- short-term loans granted	0	0	728	
b) in other entities	98	98	0	0
- short-term loans granted	98	98		
3. Other outflows on investments			14	0
III. Net cash flow from investments (I-II)	-28 352	-4 918	-40 624	-7 432
C. Cash flow from financial activity				
I. Inflows	17 916	17 328	45 237	17 160
1. Borrowings (credits and loans)	17 916	17 328	45 237	17 160
2. Other financial inflows				
II. Outflows	14 224	11 263	5 072	1 808
1. Repayment of credits and loans	9 800	9 800	1 572	787
2. Interest	4 424	1 463	3 500	1 021
3. Other financial outflows	0	0	0	
III. Net cash flow from financial activity (I-II)	3 692	6 065	40 165	15 352
D. Total net cash flow (A.III+/-B.III+/-C.III)	-10 133	178	-3 075	-1 077
E. Total cash flow balance, including:	-10 133	178	-3 075	-1 077
- change in cash – foreign exchange differences	-51	-19	24	0
F. Opening cash balance	20 340	10 029	11 310	9 312
G. Closing cash balance (F+/-D), including:	10 207	10 207	8 235	8 235
- restricted cash	287	287	271	271

Notes to the condensed consolidated financial statement for Q3 FY06

1. Description of LPP Capital Group

LPP Capital Group (CG) is composed of:

- LPP S.A. – parent company,
- 19 Polish subsidiaries, and
- - 7 foreign subsidiaries.

There is no parent company of LPP S.A.

The complete list of Capital Group companies is presented below.

No.	Company name	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 number of votes.

Consolidated financial statement of the Capital Group covering the period between 1 January and 30 September 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 represent less than 10% of the balance sheet total and revenues of the parent company in the reporting period, shall be considered immaterial. The total amount of balance sheet totals and revenues of non-consolidated entities must not exceed this level, but in relation to 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 – 0.47%
- in the Capital Group's revenues from sales and financial revenues – 6.28%

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 in LPP S.A. registered office 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, among others in China. 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 revenues generated by the parent company only - mainly know-how services related to 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.

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

Report of LPP Capital Group for Q3 FY06 contains the condensed consolidated financial statement and selected explanations contained in these Notes, as well as the condensed individual financial statement of the parent company, as per IAS 34: Interim Financial Statements.

In all its material aspects, the accounting policy underlying this report is in line with the policy underlying the consolidated annual financial statement of LPP Capital Group for FY05 drawn up as per the International Financial Reporting Standards (IFRS).

The condensed consolidated financial statement should be analysed with the consolidated financial statement for the year ended on 31 December 2005.

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

Key achievements of LPP S.A. Capital Group in Q3 FY06 included:

1. Revenues from sales in Q3 FY06 totalled PLN 203.3 million, up by 21% compared to revenues generated in Q3 FY05 (PLN 168.4 m). In three quarters revenues from sales of LPP S.A. Capital Group amounted to PLN 528.0 m and were up by 12% on the previous year (PLN 473.3 m).
2. Q3 FY06 operating profit totalled PLN 7.3 m, down by 16% compared to Q3 FY05 (PLN 8.7 m). YTD, LPP S.A. CG closed its 9-month period with the operating loss of PLN – 3.5 m (in FY05 the Group recorded operating profit of PLN 35.2 m).
3. Sales in Q3 FY06 totalled PLN 146 m in Reserved stores and PLN 35.2 m in CroppTown stores (compared to PLN 120.7 m and PLN 27.7 m respectively in Q3 FY05).
4. In Q3 new outlets have been opened (about 5.8 thousand square meters), increasing the total selling area to approx. 110.2 thousand metres (230 stores), of which 36.5 thousand square metres (68 stores) abroad.

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

Q3 comprises two months that are traditionally linked to summer sales (July, August) in the clothing sector and a month when the collection is changed. In July and August LPP S.A. CG companies focused on intensive sales aiming at selling off considerable amounts of goods not adapted to customers' needs. Even though these activities led to disposing of products with a weak position on the market, the gross margin on sales has been adversely affected (about 1 percentage point less than in Q3 of FY05). As a result, even though September saw a marked increase of sales of the well-received goods from the new collection, the operating result of LPP S.A. CG in Q3 was not satisfactory.

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

[data in PLN '000

Company name	Country	Revenues from sales in Q3 FY06	% of sales by country in Q3 FY06	Revenues from sales 01.01-30.09.2006	% of sales by country in the period 01.01 - 30.09
LPP S.A.	Poland	155 117,47	76,30%	420 422,48	79,62%
LPP Retail Estonia OU	Estonia	6 888,94	3,39%	14 924,93	2,83%
LPP Retail Latvia Ltd	Latvia	6 081,32	2,99%	13 508,99	2,56%
LPP Retail Czech Republic s.r.o.	the Czech Republic	10 750,12	5,29%	24 824,26	4,70%
LPP Hungary Kft;	Hungary	3 412,14	1,68%	7 460,87	1,41%
UAB "LPP"	Lithuania	6 327,55	3,11%	15 696,80	2,97%
LPP Ukraina AT	Ukraine	3 390,41	1,67%	9 562,48	1,81%
ZAO "Re Trading"	Russia	11 321,85	5,57%	21 619,16	4,09%
Total:		203 289,80	100,00%	528 019,97	100,00%

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

Seasonality in sales of clothing is the characteristic feature of the market as a whole. In terms of revenues and margin generated, Q3 is similar to Q1 of the calendar year, as there are also two months of traditional sales (July and August). As a result, profit margin (return on sales) before tax is lower than the average annual margin in the entire quarter.

6. Segment reporting – revenues and results per 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 Statements, LPP CG is under no obligation to disclose its data broken down into segments in the current quarterly report.

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

None.

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

None.

9. Date of approval of the financial statement for publication

This financial statement was approved for publication by the Management Board of the parent company on 9 November 2006.

11. Events after the balance sheet date not presented in the financial statement with potential significant impact on the future financial results of LPP Capital Group

Under IAS 10, events after the balance sheet date include all events that occurred between the balance sheet date and the date when the financial statement is authorised for issue (i.e. approved for publication).

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

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

In Q3 FY06 there were no changes in the Capital Group's structure, including business combination (mergers), takeover or sale of Capital Group companies, long-term investments, or division, restructuring and discontinuation of business operations.

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

In Q3 FY06, LPP S.A. and its subsidiaries used bank guarantees to secure payment of rent for leased retail premises where brand stores are located.

As at 30 September 2006, the total value of bank guarantees granted at the request and on the responsibility of LPP S.A. amounted to PLN 51,741,7 k, of which:

- a) guarantees granted to secure agreements concluded by LPP S.A. – PLN 6,700.9 k
- b) guarantees granted to secure lease agreements concluded by consolidated related parties – PLN 30,947,5 k
- c) guarantees granted to secure lease agreements concluded by non-consolidated related parties – PLN 13,841.7 k
- d) guarantees granted to secure agreements concluded by third parties – PLN 251,6 k

As at 30 September 2006, the total amount of all guarantees issued by the parent company totalled PLN 7,112.0 k and has changed by PLN 1,500.0 k on 30 June 2006.

14. Estimated future liabilities arising from retail lease agreements

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

Total future minimum payments under lease agreements, estimated as at 30 September 2006, are as follows:

- payables with the maturity date within 12 months from the balance sheet date PLN 101.659.3 k
- payables with the maturity date from 12 months to 5 years from the balance sheet date

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PLN 263,058.5 k

- payables with the maturity date over 5 years from the balance sheet date PLN 79,474.4k

15. The Management Board's opinion on the feasibility of forecasts of annual consolidated results

The Management Board of LPP S.A. decided to correct the forecasts of annual consolidated results. The correction pertains to net profit. The corrected forecast provides for consolidated net profit of PLN 42 m generated by LPP S.A. CG.

The forecast has been corrected due to generating lower than expected profit before tax on sales in September (which was reflected in the result for Q3.) and October (94% of the plan). The corrected value has been estimated on the assumption that in November and December the profit plan shall be realized similarly as in October.

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

Shareholding structure of the parent company as at the date of submission of the quarterly report for Q3 FY06:

Shareholder	Number of shares held	Number of votes at the General Meeting of Shareholders	Share in the total vote at the General Meeting of Shareholders	Share in share capital
Marek Piechocki	281.876	981.876	31,64%	16,55%
Jerzy Lubianiec	246.338	946.338	30,49%	14,46%
Grangefont Limited, headquartered in London, UK Commercial Union OFE BPH CU WBK S.A. (CU OFE)	350.000	350.000	11,28%	20,55%
	156.260	156.260	5,03%	9,17%

Changes in share ownership structure after the date of submission of the last quarterly report:

1)

Jerzy Lubianiec	Number of shares held	Number of votes at the General Meeting of Shareholders	Share in the total vote at the General Meeting of Shareholders	Share in share capital
as at 11 August 2006	276.338	976.338	31,46%	16,22%
as at 9 November 2006	246.338	946.338	30,49%	14,46%

2)

Commercial Union OFE BPH CU WBK S.A. (CU OFE)	Number of shares held	Number of votes at the General Meeting of Shareholders	Share in the total vote at the General Meeting of Shareholders	Share in share capital
as at 11 August 2006	No data	No data	No data	No data
as at 9 November 2006	156.260	156.260	5,03%	9,17%

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

Shareholder	Number of shares held	Number of votes at the General Meeting of Shareholders
President of the Management Board	281.876	981.876
Vice-President of the Management Board	5 684	5 684
Vice-President of the Management Board	4 055	4 055
Vice-President of the Management Board	2 794	2 794
Vice-President of the Management Board	2 071	2 071
Chairman of the Supervisory Board	246.338	946.338
Member of the Supervisory Board	150	150

In the reporting period, there were changes in the ownership structure of LPP S.A. of the members of the Company's Management Board and Supervisory Board, about which the Company notified in current reports RB 32/2006 of 5th September 2006 and RB 36/2006 of 26th October 2006.

18. Information on legal proceedings

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

19. Related-party transactions in excess of EURO 500.000 concluded by the Issuer

On 16 October 2006, the Company concluded a loan agreement with its subsidiary ZAO RE Trading for the total amount of EUR 2,000 k. The loan will be used to develop the network of Reserved and Cropp Town outlets in Russia.

20. Related-party transactions

20.1. Key management personnel

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

The amount of short-term employee benefits received by the key management personnel in the period from 1 January to 30 September 2006 totalled PLN 879 k, of which PLN 870 k received by members of the Management Board and PLN 9 k by a member of the Supervisory Board for services other than work in the Supervisory Board.

20.2. Related party transactions

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

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

Amounts presented in the table below show only intercompany transactions between LPP S.A. and 19 Polish non-consolidated subsidiaries, and are presented from the point of view of the parent company.

Data in the table is in PLN '000

NO.	related parties	receivables as at		revenues for the period January-September 2006	expenses for the period January-September 2006
		31 September 2006	payables as at 31 September 2006		
1	Polish subsidiaries	28	2 109	72	32 501
	Total	28	2 109	72	32 501

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

All related-party transactions were concluded at arm's length. Revenues from Polish companies are generated from 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.

21. Information on guarantees and sureties granted

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

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

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

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

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

1. sales of clothing of autumn and winter collection mainly in Reserved stores and to a smaller extent in Cropp Town stores. Registered parameters indicated a marked increase of product evaluation by the clients on the same period in the previous year,
2. continuing investment process – in particular, further development of the Reserved and Cropp Town brand stores networks both in Poland and abroad (by the end of the year, the total selling area will be increased by approx. 13 thousand square meters), .
3. exchange rate of PLN against USD and EURO.

24. Notes to the condensed consolidated financial statement

24.1 Tangible fixed assets (PP&E)

The amount of tangible fixed assets presented in the consolidated financial statement drawn up as at 30 September 2006 includes an adjustment for a revaluation write-down totalling PLN 1,237 k.

The amount of payments on account of acquisition of tangible fixed assets as at 30 September 2006 was PLN 224 k.

Changes in amounts related to tangible fixed assets in the period from 1 January to 30 September 2006 were as follows:

	in PLN '000
As at 31 December 2005	175 138
Increase	62 714
Decrease	(22 968)
Foreign exchange differences	7 667
Amortisation and depreciation	(30 780)
As at 30 September 2006	191 771

24.2 Inventories

The amount of inventories presented in the consolidated financial statement drawn up as at 30 September 2006 includes a revaluation write-down totalling PLN 1,499 k.

24.3 Receivables

The amount of receivables presented in the consolidated financial statement drawn up as at 30 September 2006 includes an adjustment for a revaluation write-down totalling PLN 5,531 k.

This write-down includes:

revaluation write-down on receivables and claimed receivables due from customers	PLN 3,914 k.
revaluation write-down of the so-called doubtful receivables:	PLN 1,441 k
revaluation write-down of receivables from employees and other	PLN 176k

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

as at 31 December 2005	PLN 5,573 k
write-downs made between 1st January and 30 th September 2006	PLN 1,471 k
decrease in write-downs in previous years	PLN 1,388 k
decrease in write-downs in previous years between 1 st January 2006 and 30 th June 2006	PLN 125 k
as at 30 September 2006	PLN 5,531 k

24.4 Provisions

The amount of provisions presented in the consolidated financial statement drawn up as at 30 September 2006 totals PLN 5,394 k and includes:

- | | |
|--|-------------|
| - provision for retirement severance payments: | PLN 342k |
| - provision for holiday leaves not taken: | PLN 934k |
| - provision for deferred income tax: | PLN 4,118 k |

24.5 Income tax

Income tax presented in the consolidated profit and loss account for the period between 1 January and 30 September 2006 amounts to PLN 1,145 k and includes:

- | | |
|-----------------|----------------|
| - - current tax | PLN 2,796 k |
| - deferred tax | PLN (1,651) k. |

24.6 Foreign exchange differences

The consolidated profit and loss account drawn up as at 30 September 2006 presents an excess of taxable foreign exchange differences over deductible foreign exchange differences of PLN 4,821 k.

25. Additional information to the individual statement of LPP S.A.

Following the change in the method of estimation of the carrying amount of assets invested in foreign subsidiaries, introduced in 2005 and described in more detail in the last annual report, shares, additional paid-in capital, loans, and receivables presented under assets of the individual balance sheet were written down between January and September 2006; these write-downs totalled PLN 13,068 k and were also recognised under financial expenses and operating expenses in the individual profit and loss account.

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