

LPP S.A. Group

Interim condensed financial statements for the third quarter of 2010

The statements have been prepared in PLN thousand

LPP S.A. Group

Interim condensed financial statements for the third quarter of 2010

Gdańsk November 2010

LPP S.A. Group

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1. Selected Consolidated Financial Data of LPP S.A. Capital Group

in PLN
thousand

Selected Consolidated Financial Data	III quarter of	III quarter	of III quarter	of III quarter
	2010	2009	2010	2009
	01/01/2010-	01/01/2009-	01/01/2010-	01/01/2009-
	30/09/2010	30/09/2009	30/09/2010	30/09/2009
	in PLN thousand		in thousand EUR	
Net revenues from sales of products, goods and materials	1 449 518	1 458 900	362 135	331 621
Operating profit (loss)	85 035	58 221	21 244	13 234
Gross profit (loss)	69 516	35 129	17 367	7 985
Net profit (loss)	49 775	22 697	12 435	5 159
Net cash flows from operating activities	43 003	142 642	10 743	32 424
Net cash flows from investing activities	-131 597	-55 650	-32 877	-12 650
Net cash flows from financing activities	-54 187	-93 236	-13 538	-21 193
Total net cash flows	-142 781	-6 244	-35 671	-1 419

Selected Consolidated Financial Data	III quarter 2010	III quarter	III quarter	III quarter
	2010	2009	2010	2009
	01/01/2010	01/01/2009	01/01/2010	01/01/2009
	30/09/2010	30/09/2009	30/09/2010	30/09/2009
	in PLN thousand		in thousand EUR	
Total assets	1 416 449	1 301 050	355 267	308 116
Long-term liabilities	309 629	381 597	77 660	90 370
Current liabilities	459 763	317 642	115 316	75 224
Equity capital	647 057	601 811	162 292	142 521
Share capital	3 501	3 501	878	829
Weighted average number of ordinary shares	1 728 879	1 725 718	1 728 879	1 725 718
Profit (loss) per ordinary share (in PLN / EUR)	28.8	13.2	7.5	3.3
Book value per share (in PLN / EUR)	374.3	348.7	95.1	85.4

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

in PLN
thousand

Balance sheet	as at the end of:		
	III quarter 2010 30/09/2010	III quarter 2009 30/09/2009	the previous year 31/12/2009
ASSETS			
Fixed assets (long term)	726 886	760 064	739 993
1. Tangible fixed assets	433 396	460 007	442 117
2. Intangible assets	11 650	13 643	12 763
3. Goodwill	183 609	183 609	183 609
4. Trademark	77 508	77 508	77 508
5. Shares in subsidiaries	719	719	719
6. Other securities			0
7. Receivables and loans	1 042	1 328	1 057
8. Deferred tax assets	18 839	23 055	22 045
9. Accruals and prepayments	123	195	175
Current assets (short term)	689 563	540 986	621 610
1. Inventory	423 433	361 690	322 756
2. Receivables	105 453	88 175	93 426
3. Receivables from income tax	9 936	119	
4. Loans	270	360	541
5. Other securities	16 000		
6. Other financial assets	72 323		
7. Accruals and prepayments	7 447	7 055	7 405
8. Cash & cash equivalents	54 701	83 587	197 482
TOTAL assets	1 416 449	1 301 050	1 361 603

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3. Uniform consolidated comprehensive income statement of LPP S.A. Capital Group

in PLN
thousand

Comprehensive Income Statement	cumulative	III quarter	cumulative	III quarter
	2010		2009	
	current year		previous year	
	01/01/2010- 30/09/2010	01/07/2010- 30/09/2010	01/01/2009- 30/09/2009	01/07/2009- 30/09/2009
Continued operation				
Sales revenues	1 449 518	543 445	1 458 900	504 952
Cost of sales	687 186	271 844	756 660	279 509
Gross profit/loss on sales	762 332	271 601	702 240	225 443
Other operating revenues	19 038	5 511	21 577	6 090
Selling costs	606 508	212 084	571 261	183 109
Overheads	67 663	22 933	68 433	21 391
Other operating expenses	22 164	5 278	25 902	5 884
Operating profit/loss	85 035	36 817	58 221	21 149
Financial revenue	5 643	1 624	2 531	337
Financial expenses	21 162	18 587	25 623	17 933
Gross profit/loss	69 516	19 854	35 129	3 553
Tax burden	19 741	3 153	12 364	3 074
Net profit/loss from continuing operations	49 775	16 701	22 765	479
Discontinued operations				
Net profit/loss from discontinued operations			-68	6
Net profit/loss	49 775	16 701	22 697	485
Other comprehensive income				
Foreign exchange differences on translation	-1 848	1 895	1 373	1 864
Total comprehensive income	47 927	18 596	24 138	2 343

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

Statement of Changes in Equity	in PLN thousand								
	Share capital	Own shares	Share premium	Other capital	Foreign exchange differences translation	Profit (loss) on previous years	Current period profit/loss	Minority interests	Total equity capital
As at 1 January 2009	3 492	-48 746	108 123	328 261	-3 069	176 860	0	314	565 235
- adjustments due to errors in previous years						-166			-166
As at 1 January 2009 after adjustments	3 492	-48 746	108 123	328 261	-3 069	176 694	0	4	31 565 069
Costs of treasury shares purchase		-2							-2
Capital increase	9								9
Distribution of profit for the year 2008				170 949		-170 949			0
Payment of wages and salaries paid in shares				1 955					1 955
Transactions with minority				-1 266					-1 266
Establishment of a minority shareholding as at the balance sheet date								-314	-314
Principal of bonds				12 290					12 290
Transactions with owners	9	-2	0	183 928		0 -170 949	0	-314	12 672
Net income for three quarters of 2009							22 697		22 697
Calculation of foreign exchange differences on translation					1 373				1 373
As at 30 September 2009	3 501	-48 748	108 123	512 189	-1 696	5 745	22 697	0	601 811
As at 1 January 2010	3 501	-48 749	108 123	512 189	509	110 016	0	0	685 589
- adjustments due to errors in previous years						-12			-12
As at 1 January 2010 after adjustments	3 501	-48 749	108 123	512 189	509	110 004	0	0	685 577
Costs of treasury shares purchase		-3							-3
Distribution of profit for the year 2009				35 370		-121 814			-86 444
Transactions with owners	0	-3	0	35 370		0 -121 814	0	0	-86 447
Net income for three quarters of 2010							49 775		49 775
Calculation of foreign exchange differences on translation					-1 848				-1 848
As at 30 September 2010	3 501	-48 752	108 123	547 559	-1 339	-11 810	49 775	0	647 057

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

	in PLN thousand			
	cumulative	III quarter of 2010	cumulative	III quarter 2009
Statement of Cash Flows	01/01/201030/09/ 2010	01/07/201030 /09/2010	01/01/200930/ 09/2009	01/07/200930/0 9/2009
A. Cash flow from operating activities - indirect method				
I. Gross profit (loss)	69 516	19 854	35 061	3 559
II. Total adjustments	-26 513	-25 513	107 581	103 478
1. Depreciation	70 393	23 362	72 562	23 088
2. (Profit) loss on foreign exchange differences	-1 301	-1 797	-3 122	1 652
3. Interest and participation in profits (dividends)	15 132	4 870	16 168	5 952
4. Profit (loss) from investing activities	-1 953	-1 295	-2 623	-354
5. Paid income taxes	-39 633	-9 520	-53 972	-8 206
6. Change in provisions	152	-1 147	-2 669	-1 695
7. Change in inventories	-99 231	-39 598	92 345	39 235
8. Change in receivables	-31 027	-16 876	16 093	9 969
9. Change in short-term liabilities, with the exception of loans and credits	60 118	17 210	-23 837	34 149
10. Change in accruals	-376	1 164	-3 988	-235
11. Other adjustments	1 213	-1 886	624	-77
III. Net cash flows from operating activities	43 003	-5 659	142 642	107 037
B. Cash flows from investing activities				
I. Revenues	19 516	5 678	14 454	10 411
1. Disposal of intangible and tangible fixed assets	17 650	4 490	12 918	9 181
2. From financial assets, including:	1 866	1 188	1 536	1 230
a) in affiliated companies	549	0	1 074	1 074
- dividends and profit participation	549	0	1 074	1 074
b) in other entities	1 317	1 188	462	156
- disposal of financial assets				
- repayment of short-term loans	421	305	391	153
- interest	896	883	71	3
3. Other investment inflows				

II. Expenses	151 113	28 262	70 104	18 020
1. Acquisition of intangible and tangible fixed assets	64 963	28 213	68 524	18 020
2. For financial assets, including:	150	49		0
a) in affiliated companies	0	0	0	0
- acquisition of shares				
- granted short-term loans				
- granted long-term loans				
b) in other entities	150	49	0	0
- granted short-term loans	105	32		0
- granted long-term loans	45	17		0
3. Other capital expenses	86 000	0	1 580	0
III. Net cash flows from investing activities.	131 597	-22 584	-55 650	-7 609
C. Cash flows from financing activities				
I. Revenues	7 729	7 729	164 167	128 216
1. Proceeds from share issue			8	8
2. Loans and borrowings	7 729	7 729	36 355	404
3. Other financial income		0	127 804	127 804
II. Expenses	61 916	43 477	257 403	192 355
1. Treasury shares purchase	3	1	2	1
2. Repayment of loans and borrowings	43 578	36 204	237 506	188 015
3. Payment of finance lease liabilities	251	63	408	131
4. Interest	18 084	7 209	19 487	4 208
5. Other financial expenses				
III. Net cash flows from financing activities	-54 187	-35 748	-93 236	-64 139
D. Total net cash flows.	142 781	-63 991	-6 244	35 289
E. Net change in cash, including:-	142 781	-63 991	-6 244	35 289
- change in cash from foreign exchange differences	872	-2 709	-1 352	-2 757
F. Opening cash balance	197 482	118 692	89 831	48 298
G. Cash and cash equivalents at the end of the period, including:	54 701	54 701	83 587	83 587
- restricted cash	494	494	564	564
	151 113	28 262	70 104	18 020

6. Selected Financial Data - Individual Financial Statement of LPP S.A.

Selected Financial Data	in PLN thousand			
	III quarter of	III quarter	of III quarter	of III quarter
	2010	2009	2010	2009
	01/01/2010 9/2010	01/01/2009 9/2009	01/01/2010 30/09/2010	01/01/2009 30/09/2009
	in PLN thousand	in thousand	EUR	
Net revenues from sales of products, goods and materials	1 310 202	1 154 668	327 330	262 466
Operating profit (loss)	82 740	81 680	20 671	18 567
Gross profit (loss)	76 164	52 791	19 028	12 000
Net profit (loss)	62 634	42 228	15 648	9 599
Net cash flows from operating activities	9 355	160 232	2 337	36 422
Net cash flows from investing activities	-97 330	-26 555	-24 316	-6 036
Net cash flows from financing activities	-50 505	-112 961	-12 618	-25 677
Total net cash flows	-138 480	20 716	-34 597	4 709

Selected Financial Data	III quarter 2010	III quarter 2009	III quarter 2010	III quarter 2009
	01/01/2010 9/2010	01/01/2009 9/2009	01/01/2010 9/2010	01/01/2009 9/2009
	in PLN thousand		in thousand	EUR
Total assets	1 417 757	1 285 469	355 595	304 426
Long-term liabilities	307 581	381 185	77 146	90 273
Current liabilities	441 468	291 349	110 727	68 998
Equity capital	668 708	612 935	167 722	145 156
Share capital	3 500	3 500	878	829
Weighted average number of ordinary shares	1 728 879	1 725 718	1 728 879	1 725 718
Profit (loss) per ordinary share (in PLN / EUR)	36.2	24.5	9.1	5.6
Book value per share (in PLN / EUR)	386.8	355.2	97.0	84.1

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7. Balance sheet of LPP S.A.

in PLN
thousand

Balance sheet	as at the end of:		
	III quarter 2010 30/09/2010	III quarter 2009 30/09/2009	the previous year 31/12/2009
ASSETS			
Fixed assets (long term)	643 126	650 789	646 472
1. Tangible fixed assets	321 616	333 203	327 318
2. Intangible assets	11 338	13 097	12 312
3. Goodwill	179 618	179 618	179 618
4. Trademark	77 508	77 508	77 508
5. Shares in subsidiaries	19 464	19 267	19 311
6. Receivables and loans	5 252	3 957	5 206
7. Deferred tax assets	28 207	23 944	25 024
8. Accruals and prepayments	123	195	175
Current assets (short term)	774 631	634 680	695 294
1. Inventory	344 264	289 182	266 998
2. Receivables	303 007	279 723	255 025
3. Receivables from income tax	9 891	119	
4. Loans	926	9 019	7 119
5. Other securities	16 000	0	0
6. Other financial assets	72 323	0	0
7. Accruals and prepayments	4 708	4 271	4 160
8. Cash & cash equivalents	23 512	52 366	161 992
TOTAL assets	1 417 757	1 285 469	1 341 766

LIABILITIES			
Equity capital	668 708	612 935	692 521
1. Share capital	3 500	3 500	3 500
2. Treasury shares	-48 752	-48 748	-48 749
3. Share premium	108 123	108 123	108 123
4. Other capital	546 901	511 530	511 531
5. Retained earnings	58 936	38 530	118 116
- profit (loss) from previous years	-3 698	-3 698	-3 698
- net profit (loss) for the current period	62 634	42 228	121 814
Long-term liabilities	307 581	381 185	346 823
1. Bank loans and borrowings	188 265	258 582	226 731
2. Issue of debt securities	115 514	115 514	115 514
3. Other financial liabilities	0	123	66
4. Provisions for employee benefits	1 066	999	1 025
5. Provision for deferred tax	2 736	5 967	3 487
Current liabilities	441 468	291 349	302 422
1. Trade payables and other liabilities	354 988	203 946	206 610
2. Income tax liability	0	0	14 207
3. Bank loans and borrowings	76 018	81 095	71 644
4. Issue of debt securities	6 718	2 361	5 465
5. Other financial liabilities	101	279	252
6. Provisions	1 830	1 985	1 362
7. Special funds	494	571	463
8. Accruals and prepayments	1 319	1 112	2 419
TOTAL liabilities	1 417 757	1 285 469	1 341 766

8. Uniform Comprehensive Income Statement of LPP S.A.

Comprehensive Income Statement	in PLN thousand			
	cumulative	III quarter	cumulative	III quarter
		2010		2009
		current year		previous year
	01/01/2010-	01/07/2010-	01/01/2009-	01/07/2009-
	30/09/2010	30/09/2010	30/09/2009	30/09/2009
Sales revenues	1 310 202	511 416	1 154 668	458 915
Cost of sales	703 583	290 959	667 239	275 410
Gross profit/loss on sales	606 620	220 457	487 429	183 505
Other operating revenues	23 378	14 881	40 293	19 261
Selling costs	439 479	155 463	335 468	133 688
Overheads	49 565	16 532	50 820	17 443
Other operating expenses	58 214	9 780	59 754	7 663
Operating profit/loss	82 740	53 563	81 680	43 972
Financial revenue	26 847	-14 074	11 561	-7 481
Financial expenses	33 423	10 155	40 450	16 968
Gross profit/loss	76 164	29 334	52 791	19 523
Tax burden	13 530	3 171	10 563	4 530
Net profit/loss	62 634	26 163	42 228	14 993
Total comprehensive income	62 634	26 163	42 228	14 993

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9. Statement of Changes in Equity of LPP SA

Statement of Changes in Equity	Share capital		Share Treasury shares premium	Other capital	Profit (loss) from previous years	in PLN thousand	
						Current period profit/loss	TOTAL equity capital
As at 1 January 2009	3 492	-48 746	108 123	327 686	164 658		555 213
- adjustments due to errors in previous years							0
As at 1 January 2009 after adjustments	3 492	-48 746	108 123	327 686	164 658	0	555 213
Costs of treasury shares purchase		-2					-2
Capital increase	8						8
Distribution of profit for the year 2008				164 658	-164 658		0
LPP S.A. share in the profits of Artman S.A. from previous years				6 290			
Principal of bonds				12 290			
Goodwill revaluation reserve				-1 762			
Payment of wages and salaries paid in shares				2 368			
Loss of Artman S.A. for the period 01.01-30.06.2009					-3 698		-3 698
Transactions with owners	8	-2	0	183 844	-168 356	0	15 494
Net income for three quarters of 2009						42 228	42 228
As at 30 September 2009	3 500	-48 748	108 123	511 530	-3 698	42 228	612 935
As at 1 January 2010	3 500	-48 749	108 123	511 531	118 116		692 521
- adjustments due to errors in previous years							0
As at 1 January 2010 after adjustments	3 500	-48 749	108 123	511 531	118 116	0	692 521
Costs of treasury shares purchase		-3					-3
Distribution of profit for the year 2009				35 370	-121 814		-86 444
Transactions with owners	0	-3	0	35 370	-121 814	0	-86 447
Net income for three quarters of 2010						62 634	62 634
As at 30 September 2010	3 500	-48 752	108 123	546 901	-3 698	62 634	668 708

10. Statement of Cash Flows of LPP SA

2010	in PLN thousand			
	cumulative	III quarter of 2010	cumulative	III quarter 2009
Statement of Cash Flows	01/01/201030/ 09/2010	01/07/201030/ 09/2010	01/01/200930/09 /2009	01/07/200930/ 09/2009
A. Cash flow from operating activities - indirect method				
I. Gross profit (loss)	76 164	29 334	52 791	19 523
II. Total adjustments	-66 809	-46 040	107 441	84 190
1. Depreciation	44 811	14 930	38 954	14 989
2. (Profit) loss on foreign exchange differences	-365	854	-2 117	1 670
3. Interest and participation in profits (dividends)	14 093	4 489	14 916	6 001
4. Profit (loss) from investing activities	-8 594	-13 443	1 956	446
5. Paid income taxes	-39 277	-9 401	-46 214	-8 021
6. Change in provisions	509	-321	-1 808	-1 148
7. Change in inventories	-77 265	-17 453	78 772	42 511
8. Change in receivables	-66 041	-24 053	19 134	8 981
9. Change in short-term liabilities, with the exception of loans and borrowings	66 916	-1 383	7 143	19 144
10. Change in accruals	-1 596	-259	-3 295	-383
11. Other adjustments	0	0	0	
III. Net cash flows from operating activities	9 355	-16 706	160 232	103 713
B. Cash flows from investing activities				
I. Revenues	33 937	19 231	18 337	10 825
1. Disposal of intangible and tangible fixed assets	17 593	5 450	10 349	7 817
2. From financial assets, including:	16 333	13 781	7 988	3 008
a) in affiliated entities	15 016	12 593	7 583	2 852
- interest and dividends	1 605	289	3 600	2 852
- repayment of short-term loans				
- repayment of long-term loans	13 411	12 304	3 983	0
b) in other entities	1 317	1 188	405	156
- interest	896	883	14	3
- repayment of short-term loans	421	305	391	153
3. Other investment inflows	11	0		

II. Expenses	131 267	17 019	44 892	14 188
1. Acquisition of intangible and tangible fixed assets	43 270	16 971	41 607	14 188
2. For financial assets, including:	1 997	48	3 285	0
a) in affiliated companies	1 847	0	3 285	0
- acquisition of shares	0	0	1 579	0
- granted short-term loans				
- granted long-term loans	1 847	0	1 706	0
b) in other entities	150	48	0	0
- granted short-term loans	45	17	0	0
- granted long-term loans	105	31	0	0
3. Other capital expenses	86 000	0		
III. Net cash flows from investing activities	-97 330	2 212	-26 555	-3 363
C. Cash flows from financing activities				
I. Revenues	6 324	0	143 173	127 812
1. Loans and borrowings	6 324	0	15 361	0
2. Net proceeds from share issue	0	0	8	8
3. Other financial income	0	0	127 804	127 804
II. Expenses	56 829	37 111	256 134	193 126
1. Treasury shares purchase	3	1	2	1
2. Repayment of loans and borrowings	38 681	30 003	237 459	188 527
3. Interest	17 929	7 055	18 597	4 522
4. Other financial expenses - financial lease	216	52	76	76
III. Net cash flows from financing activities	-50 505	-37 111	-112 961	-65 314
D. Total net cash flows	-138 480	-51 605	20 716	35 036
E. Net change in cash, including:	-138 480	-51 605	20 716	35 036
- change in cash from foreign exchange differences	451	-9	-777	-899
F. Opening cash balance	161 992	75 117	31 650	17 330
G. Cash and cash equivalents at the end of the period, including:	23 512	23 512	52 366	52 366
- restricted cash	494	494	564	564

Notes to the condensed consolidated financial statements for the third quarter of 2010

1. Characteristics of LPP S.A. Capital Group

The LPP S.A. Capital Group (CG) includes:

- LPP S.A. as a parent entity,

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- 19 national subsidiary companies, and
- 13 foreign subsidiary companies.

There is no parent company in relation to LPP S.A.

The list of companies composing the LPP S.A. Capital Group is presented below.

No.	Company name	Registered office	Takeover date
1.	G&M Sp. z o.o.	Gdańsk, Poland	26.09.2001
2.	M&G Sp. z o.o. in liquidation	Gdańsk, Poland	26.09.2001
3.	AKME Sp. z o.o. in liquidation	Gdańsk, Poland	26.09.2001
4.	TORA Sp. z o.o.	Gdańsk, Poland	26.09.2001
5.	P&G Sp. z o.o. in liquidation	Gdańsk, Poland	26.09.2001
6.	SL&DP Sp. z o.o. in liquidation	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. in liquidation	Gdańsk, Poland	26.09.2001
10.	GM&PL Sp. z o.o. in liquidation	Gdańsk, Poland	26.09.2001
11.	AMA Sp. z o.o. in liquidation	Gdańsk, Poland	28.05.2002
12.	LIMA Sp. z o.o. in liquidation	Gdańsk, Poland	22.07.2002
13.	LUMA Sp. z o.o.	Gdańsk, Poland	05.11.2002
14.	KAMA Sp. z o.o. in liquidation	Gdańsk, Poland	29.10.2002
15.	KUMA Sp. z o.o. in liquidation	Gdańsk, Poland	05.11.2002
16.	AMUL Sp. z o.o. in liquidation	Gdańsk, Poland	29.10.2002
17.	AMUK Sp. z o.o. in liquidation	Gdańsk, Poland	15.05.2003
18.	AMUR Sp. z o.o.	Gdańsk, Poland	09.05.2003
19.	MM&MR Sp. z o.o. in liquidation	Gdańsk, Poland	09.03.2005
20.	LPP Retail Estonia OU	Tallinn, Estonia	29.04.2002
21.	LPP Czech Republic s.r.o.	Prague, Czech Republic	16.09.2002
22.	LPP Hungary Kft	Budapest, Hungary	18.10.2002
23.	LPP Retail Latvia Ltd	Riga, Latvia	30.09.2002
24.	UAB LPP	Vilnius, Lithuania	27.01.2003
25.	LPP Ukraine	Peremyshliany, Ukraine	23.07.2003
26.	RE Trading Closed Joint Stock Company	Moscow, Russia	12.02.2004
27.	LPP Fashion Distributor SRL	Bucharest, Romania	12.08.2007
28.	ES STYLE	Moscow, Russia	10.03.2008
29.	FASHION POINT	Moscow, Russia	01.04.2008
30.	LPP Retail Bulgaria Ltd.	Sofia, Bulgaria	14.08.2008
31.	Artman Slovakia s.r.o.	Banska Bystrica, Slovakia	30.10.2008
32.	Artman Mode s.r.o.	Ostrava, Czech Republic	30.10.2008

The dominance of LPP S.A. in the subsidiaries, due to the 100% stake in subsidiaries' capital and in the total number of votes, is immediate.

The consolidated financial statements of LPP S.A. Capital Group for the period from 1 January to 30 September 2010 includes individual results of LPP S.A. and the results of the following subsidiaries:

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- LPP Retail Estonia OU
- LPP Czech Republic s.r.o.
- LPP Hungary Kft
- LPP Retail Latvia Ltd
- UAB LPP
- LPP Ukraina AT
- ZAO Re Trading
- LPP Fashion Distributor srl.
- ES STYLE
- FASHION POINT
- LPP Retail Bulgaria Ltd.
- Artman Slovakia srl
- Artman Mode s.r.o.

Other national subsidiaries of LPP S.A. were not consolidated due to the immateriality of data. This is consistent with the Accounting Policy adopted by the Group. According to it, a subsidiary or affiliated entity is not consolidated, if the amounts reported in its financial statements are negligible in relation to the financial statements of the parent company. In particular, the balance sheet total and net revenues from sales of goods and services and financial operations of the entity which for the financial period are less than 10% of total assets and liabilities and the income of the parent company are regarded as insignificant. The total amount of revenues and balance sheet totals of the entities not included in the consolidation may not exceed that level, but in relation to the corresponding amounts of the consolidated financial statements established on the assumption that their scope includes all subsidiaries, without making any exclusions.

Participation in the consolidated amounts of all national subsidiaries not included in the consolidation is as follows:

- in the balance sheet total of the Capital Group -0.12%
- in revenues from sales and financial revenues of the Capital Group - 0.51%

Failure to consolidate the financial statements of these companies has not affected the fair presentation of the asset position, financial situation and financial result of the CG.

LPP S.A. is a company that designs and distributes clothing in Poland and the countries of Central and Eastern Europe. Companies composing the CG and subject to consolidation are entities involved in the distribution of goods under the brand of Reserved, Cropp and House outside Poland. Clothing is essentially the only commodity sold by the companies from the CG. As products supplementing the basic offer of the CG companies, footwear, bags and clothing accessories are sold.

Clothing designs are prepared in the design office located in the registered office of LPP S.A. in Gdańsk (and respectively for the brands of House and Mohito in the design office in Cracow) and then transferred to the purchasing department which orders the production of certain models, cooperating in this respect with companies in Poland and abroad, including in China. Placement of the production in China is done via the Company's sales office in Shanghai. CG also has small income from the sale of services (they are presented in the entirety as the income of the parent company - these are mainly services related to know-how within the scope of the management of showrooms by domestic partners as well as hiring means of transport).

19 national subsidiaries conduct business activity in rental of property where Cropp Town and Reserved outlets are run.

2. The basis for the preparation of the condensed consolidated financial statements and information on the changes in the applied accounting policies

Report of the LPP S.A. Capital Group for the third quarter of 2010 contains the condensed consolidated financial statements and selected explanatory data included in this Note as well as condensed financial statements of the parent company, in accordance with IAS 34 "Interim Financial Reporting."

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Accounting policy applied to prepare these statements is in all material respects compliant with the policy adopted for the preparation of the consolidated annual financial statements of the LPP S.A. Capital Group for the financial year 2009, in accordance with the International Financial Reporting Standards.

The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2009.

3. Accomplishments of the LPP S.A. Capital Group for the period covered by the report

Major accomplishments of the LPP S.A. Capital Group in the third quarter of 2010:

1. In the third quarter of 2010, sales revenues amounted to PLN 543 million. It was more by approximately 8% in comparison to the third quarter of 2009 (PLN 505 million).
2. In the third quarter, the LPP S.A. Capital Group had the operating profit of PLN 36.8 million. Last year in this period, the LPP CG had the operating profit of PLN 21.2 million. Net profit in the third quarter of 2010 was PLN 16.7 million (compared with the net profit of PLN 0.5 million in the third quarter of 2009).
3. In the third quarter of 2010, in the outlets of Reserved the sales of PLN 295.7 million was achieved, while in Cropp Town centres - in the amount of PLN 95.9 million. Sales in the third quarter in House outlets amounted to PLN 73.4 million, while in Mohito and Esotiq outlets - PLN 14.7 million and PLN 11.6 million respectively.
4. The area of retail chains increased in the reporting period by 8 thousand square meters. At the end of the third quarter, the LPP CG had 890 outlets of a total area of 308 thousand square meters.
5. Sales revenues in comparable outlets decreased in the third quarter of 2010 by 3.4% (excluding the changes in local currency exchange rates in the countries where the companies of the LPP CG operate). The volume of sales decline in comparable outlets was the lowest in seven quarters.

4. Factors and events, particularly of unusual nature, having a significant impact on the achieved consolidated financial results

Operating profit earned in the third quarter of 2010 amounted to PLN 36.8 million and was over 70% higher than in the third quarter of the previous year. Such significant improvement of the result was achieved due to three factors:

- 1) sales increase by 8%,
- 2) the increase of gross percentage margin on sales by over 5 percentage points, which allowed to increase the gross profit on sales by 20% (it was influenced by better market situation than previously and more beneficial USD/PLN relation)
- 3) continuation of activities aimed at strict cost discipline (expenses increased by 15% despite the increase in the sales network by 18%).

High negative foreign exchange differences had negative impact on the net result (approx. PLN 11.6 million).

Revenues from sales of products, goods and materials revealed in the consolidated financial statements have been earned by individual companies of CG in the following amounts (after the exemption of intra-group sales):

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data in PLN thousand

Company name	Country	Sales revenues third quarter of 2010	% share in sales by country in the third quarter	Sales revenues in the period 01.01.2010 - 30.09.2010	% share in sales by country in the period 01.01.2010 - 30.09.2010
LPP S.A.	Poland	401 215	73.8%	1 085 670	74.9%
LPP Retail Estonia OU	Estonia	9 581	1.8%	22 670	1.6%
LPP Retail Latvia Ltd	Latvia	6 507	1.2%	15 496	1.1%
LPP Retail Czech Republic s.r.o.	Czech Republic *	20 772	3.8%	57 437	4.0%
LPP Hungary Kft.	Hungary	3 882	0.7%	11 060	0.8%
UAB"LPP"	Lithuania	10 774	2.0%	26 820	1.9%
LPP Ukraina AT	Ukraine	11 288	2.1%	27 502	1.9%
ZAO "Re Trading"	Russia **	69 448	12.8%	174 353	12.0%
LPP Fashion Distributor SRL	Romania	4 889	0.9%	15 362	1.1%
LPP Retail Bulgaria Ltd.	Bulgaria	2 156	0.4%	5 296	0.4%
Artman Slovakia	Slovakia	2 933	0.5%	7 853	0.5%
Total		543 445	100.0%	1 449 518	100.0%

* total revenues of 2 companies in the Czech Republic: LPP Retail Czech Republic s.r.o., Artman Mode SRO ** total revenues of 3 companies in Russia: ZAO "Re Trading, Es Style Russia, Fashion Point Russia

5. Explanations on the seasonality or cyclicity of the LPP S.A. Capital Group operation in the report period.

Seasonality in sales is a phenomenon affecting the entire clothing market both in Poland and abroad. The third quarter of a calendar year includes two months (July and August) when the sale of spring-summer collection is traditionally conducted. Typically, this process results in achieving less than the annual average gross margin on sales throughout the quarter.

6. The division into segments of operation - revenues and results for individual segments

The LPP S.A. Capital Groups conducts one type of business activity (one trade segment regarded as the basic one). A division into two geographical segments was applied: activity with the European Union and outside. The division into geographical segments was based on the criterion of the Group asset location.

Revenues and results for particular segments for the third quarter of 2010 and the comparable period are presented in Section 23.7.

7. Information on the issue, redemption and repayment of debt and equity securities

During the third quarter, the Issuer did not perform any issue, redemption or repayment of debt and equity securities.

8. Information on the paid (or declared) dividend, total and per share, with the division into ordinary shares and other shares.

Under the decision of the AGM, a part of the profit generated in 2009 in the amount of PLN 86,443,950 was allocated for the dividend, which corresponds to PLN 50 per one authorised share.

Ordinary shares were allocated the amount of PLN 68,943,950 and the preferred shares - PLN 17,500,000.

The date which determined the list of shareholders entitled to receive dividends for 2009 was 15th September 2010, and the date of payment of dividend was 4th October 2010.

9. Date of the financial statements approval for publication

These financial statements were approved for publication by the Management Board of the Parent Company on 8 November 2010.

10. Events which occurred after the balance sheet date, not included in the financial statements, and which may significantly affect future financial results of the LPP S.A. Capital Group

There were no such events.

11. The effects of changes in the structure of the LPP S.A. Capital Group, including a business combination, acquisition or sale of the capital group entities, long-term investments, division, restructuring and discontinued operations

During the third quarter, there were no changes in the structure of the LPP S.A. Capital Group, including a business combination, acquisition or sale of the capital group entities, long-term investments, division, restructuring and discontinued operations.

12. Changes in contingent liabilities or contingent assets that have occurred since the end of last year.

In the third quarter of 2010, LPP S.A. and its subsidiaries have benefited from bank guarantees to secure the payment of rent for the rental of space for company's retail stores.

As at 30 September 2010 the total value of bank guarantees issued to the order of and on the responsibility of LPP S.A. amounted to PLN 95 006 thousand, including:

- a) the value of guarantees issued to secure the agreements concluded by LPP S.A. amounted to PLN 54 834 thousand
- b) the value of guarantees issued to secure the agreements concluded by affiliated entities included in the consolidation amounted to PLN 36 888 thousand
- c) the value of guarantees issued to secure the agreements concluded by affiliated entities not included in the consolidation amounted to PLN 3 022 thousand
- d) the value of guarantees issued to secure the agreements for office space lease concluded by LPP S.A. amounted to PLN 262 thousand

On 30 September 2010 the value of sureties granted by the parent company amounted to PLN 13 219 thousand and increased in comparison with 31 December 2009 to PLN 932 thousand.

13. Estimates concerning future liabilities under the concluded rental agreements.

Companies composing the Group are parties to the lease agreements under which they use the areas for running the showrooms network of Reserved, Cropp, ESOTIQ, House and Mohito.

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Total future minimum payments under lease agreements, estimated as at 30 September 2010 are as follows:

- amounts due within 12 months from the balance sheet date thousand	PLN	261	671
- amounts due within the period of 12 months to 5 years from the balance sheet date	PLN	654	479
- amounts due within the period of over 5 years from the balance sheet date thousand	PLN	253	903

14. The position of the Management Board on the implementation of the annual consolidated results forecast.

The company has not published any forecasts of annual results.

15. Shareholders owing directly or indirectly through subsidiaries at least 5% of the total number of votes at the General Meeting of the LPP S.A. at the date of submitting the quarterly report and the indication of changes in the ownership structure of the qualified holding of LPP S.A. in the period from the submission of the previous quarterly report.

The ownership structure of the parent company's share capital as at the submission date of the third quarter of 2010:

Shareholder	Number of held shares (pieces)	Number of votes at the Annual General Meeting of Shareholders	Share in the total number of votes at the Annual General Meeting of Shareholders	Participation in share capital
Marek Piechocki	175 000	875 000	27.78%	10.00%
Jerzy Lubianiec	175 000	875 000	27.78%	10.00%
Monistor Limited (Cyprus)	200 728	200 728	6.37%	11.47%
Grangefont Limited, with its seat in London (UK)	350 000	350 000	11.11%	20.00%
Aviva OFE	157 962	157 962	5.01%	9.02%

In the period from the previous report submission (report for the first half of 2010) the following changes in the share structure occurred:

Mr Marek Piechocki and Mr Jerzy Lubianiec disposed by donation 149 390 and 51 338 ordinary shares respectively for the companies Eutropia Limited (Cyprus) and Zinen Investment (Cyprus) respectively for which they were partner entities. Then the company Monistor Limited acquired the above mentioned shares as a contribution made by the aforementioned companies (RB 27, 28, 29, 30, 31/2010).

16. Summary of the held number of shares of LPP S.A., or rights to them by the persons managing and supervising the issuer, as at the date of this quarterly report submission, along with the indication of changes in ownership during the period from the previous quarterly report submission, separately for each person.

Shareholder	Number of held shares (pieces)	Number of votes at the Annual General Meeting of Shareholders
President of the Management Board	175 000	875 000
Vice President of the Management Board	2 664	2 664
Vice President of the Management Board	17	17
Vice President of the Management Board	137	137
Chairman of the Supervisory Board	175 000	875 000

In the period from the previous report submission (report for the first half of 2010) the following changes in the ownership of shares of LPP S.A. by the persons managing and supervising of the issuer occurred: The President of the Management Board and the Chairman of the Supervisory Board disposed by donation 149 390 and 51 338 ordinary shares respectively for the companies Eutropia Limited (Cyprus) and Zinen Investment (Cyprus) respectively for which they were partner entities.

17. Information on court proceedings

Within the Capital Group, the petitioner in cases concerning payment of amounts due from counterparties is LPP S.A. The total amount of the subject matter of the dispute does not exceed 10% of the Companies' equities.

18. Information on the conclusion by the issuer or its subsidiary of one or more transactions with affiliated entities, if individually or collectively they are significant and have been concluded under other than market terms and conditions

In the reporting period there were no such transactions with affiliated entities.

19. Transactions with affiliated companies

9.1. Key personnel

Members of the Management Board and Supervisory Board of LPP S.A. are regarded as key management personnel of the LPP S.A. Capital Group.

The value of short-term employee benefits of the key management personnel received during the period from 1 January to 30 September 2010 amounted to PLN 1,480 thousand, of which PLN 1,452 thousand related to the Management Board and PLN 28 thousand to the remuneration of the Supervisory Board members.

19.2. Transactions with affiliated entities

During the reporting period, the issuer has not concluded any transactions concerning the transfer of rights and obligations with affiliated entities.

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Transactions between the parent company and its foreign affiliated companies were subject to elimination in the consolidated financial statements and have not been revealed in the table.

The figures stated below show only the mutual transactions between the LPP S.A. and 19 Polish subsidiaries not included in the consolidation and are presented from the viewpoint of the parent company.

Data in the table are presented in PLN thousand

no. affiliated companies	receivables as at 30.09.10	liabilities as at 30.09.10	revenues for the period I-IX 2010	the expenses for the period I-IX 2010
1 Domestic companies	16	955	73	8 014
Total	16	955	73	8 014

Data shown as liabilities of LPP S.A. are receivables in the affiliated companies, while expenses are the revenues in these companies.

All the transactions with affiliated companies were concluded under market conditions. Revenues from the domestic companies are derived from the rental of office space for the purpose of business operation of these companies.

Expenses related to the domestic subsidiaries concern the rental of property where Cropp Town and Reserved outlets are run.

Payment dates set for the subsidiaries are within the range of 45 to 120 days.

20. Information on granted guarantees and sureties

In the reporting period, the Capital Group companies of the issuer have not granted credit or loan guarantees, and have not granted guarantees to one entity or its subsidiary, whose total value would be the equivalent of at least 10% of the equity of the issuer.

21. Additional information relevant for the evaluation of staff, property and financial situation, financial result of the LPP S.A. Capital Group and their changes as well as information relevant for the evaluation of the feasibility of commitments implementation by the Capital Group of the issuer.

The report contains basic information essential for the evaluation of the situation of the issuer's capital group. In the opinion of the Management Board, currently there are no threats to the implementation of the commitments of CG.

22. Identification of factors which, according to LPP S.A., will affect the results achieved by its capital group within at least the next quarter

The basic factors which will affect the results achieved in the nearest future include:

1. economic situation in Poland and in countries where the outlets of the LPP S.A. Capital Group operate
2. the level of the exchange rate of the Polish zloty in relation to USD and EUR,
3. volume of sales in the traditionally best month for the industry - December,
4. development of sales network of Reserved and Cropp Town, House and Mohito brands,
5. maintenance of the operating costs at a low level,

23. Notes to the Condensed Consolidated Financial Statements

23.1 Tangible fixed assets

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The value of tangible fixed assets presented in the consolidated financial statements as at 30 September 2010 includes an adjustment due to the write-down in the amount of PLN 2,478 thousand.

The amount of advances on account of the purchase of tangible fixed assets as at 30 September 2010 amounted to PLN 599 thousand.

23.2 Inventory

The value of inventory presented in the consolidated financial statements as at 30 September 2010 takes into account the write-down in the amount of PLN 3,331 thousand.

23.3 Receivables

The value of receivables presented in the consolidated financial statements as at 30 September 2010 includes an adjustment due to the write-down in the amount of PLN 8,393 thousand.

The value of the write-down is composed of:

the write-down of the claims and contested debts from contractors	PLN 2,964 thousand
the write-down of the so-called doubtful receivables	PLN 5,117 thousand
the write-down of receivables from employees and other	PLN 312 thousand

23.4 Provisions

The amount of the provisions presented in the consolidated financial statements as at 30 September 2010 amounting to PLN 6,758 thousand, consists of the following items:

- provision for gratuities	PLN 1,080 thousand
- provision for holiday compensation	PLN 2,875 thousand
- provision for the unpaid wages, salaries and bonuses	PLN 83 thousand
- provision for the deferred income tax in the amount of:	PLN 2,720 thousand

23.5 Income tax

The amount of the income tax presented in the consolidated income statement for the period from 01.01.2010 to 30.09.2010 amounts to PLN 19,741 thousand and includes:

- the current part	PLN 17,711 thousand
- the deferred part	PLN 2,030 thousand

23.6 Foreign exchange rate differences

In the consolidated income statement as at 30.09.2010 the advantage of positive foreign exchange rates over the negative ones was revealed in the amount of PLN 318 thousand (in the third quarter there was an advantage of negative foreign exchange rates over the positive ones in the amount of PLN 11,602 thousand)

23.7 Segments of operation

Revenues and financial results for geographical segments for the period from 1 January 2010 to 30 September 2010 and for the comparative period have been presented in the tables below.

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The statements have been prepared in PLN thousand

Year 2010

in PLN
thousand

	EU Member States	Other countries	Consolidati on adjustments	Values not attributed to segments	Total
Sales to external customers	1 247 664	201 854			1 449 518
Sales between segments	105 938		-105 938		-
Other operating revenues	11 399	3 215		4 424	19 038
Total income	1 365 001	205 069	-105 938	4 424	1 468 556
Total operating expenses, including	1 216 207	180 903	-102 812	67 663	1 361 961
Costs of goods sold between segments	78 605		-78 605		-
Other operating costs	15 549	6 011			21 560
Segment results	133 245	18 155	-3 126	-63 239	85 035
Financial revenue				5 643	5 643
Financial expenses				21 162	21 162
Pre-tax profit/loss					69 516
Income tax					19 741
Net profit from continuing operations					49 775

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Year 2009					in PLN thousand
	EU Member States	Other countries	Consolidati on adjustments	Values not attributed to segments	Total
Sales to external customers	1 300 098	158 802			1 458 900
Sales between segments	81 128		-81 128		-
Other operating revenues	16 171	568		4 838	21 577
Total income	1 397 397	159 370	-81 128	4 838	1 480 477
Total operating expenses, including	1 252 326	155 777	-80 182	68 433	1 396 354
Costs of goods sold between segments	59 578		-59 578		-
Other operating costs	22 383	3 519			25 902
Segment results	122 688	74	-946	-63 595	58 221
Financial revenue				2 531	2 531
Financial expenses				25 623	25 623
Pre-tax profit					35 129
Income tax					12 364
Net profit from continuing operations					22 765
Net loss from discontinued operations	-68				-68
Net profit					22 697

24. Notes to the individual financial statements of LPP S.A.

As a result of the estimation of the balance sheet value of the assets engaged in the foreign subsidiaries in the period from January to September 2010, a change in the write-downs of the assets item of the individual balance sheet: shares, capital supplement payments, loans and receivables, also included in the financial and operating expenses and revenues of the individual income statement, was introduced in the total amount, which reduces the assets item, including the deferred tax, of PLN 21,891 thousand.

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This change, reflected in relevant items of the individual financial statements of LPP S.A., has no influence on the amounts presented in the consolidated financial statements.