**Additional notes to the extended consolidated quarterly report**
**for Q3 FY04**

## 1. Description of the Capital Group of LPP Spółka Akcyjna (LPP S.A.)

The Capital Group LPP S.A. includes 18 Polish companies and 7 foreign companies:

| No. | Company name | Date of control take-over |
|---|---|---|
| 1. | G&M Sp. z o.o. Gdańsk | 26.09.2001 |
| 2. | M&G Sp. z o.o. Gdańsk | 26.09.2001 |
| 3. | AKME Sp. z o.o. Gdańsk | 26.09.2001 |
| 4. | TORA Sp. z o.o. Gdańsk | 26.09.2001 |
| 5. | P&G Sp. z o.o. Gdańsk | 26.09.2001 |
| 6. | SL&DP Sp. z o.o. Gdańsk | 26.09.2001 |
| 7. | DP&SL Sp. z o.o. Gdańsk | 26.09.2001 |
| 8. | IL&DL Sp. z o.o. Gdańsk | 26.09.2001 |
| 9. | PL&GM Sp. z o.o. Gdańsk | 26.09.2001 |
| 10. | GM&PL Sp. z o.o. Gdańsk | 26.09.2001 |
| 11. | AMA Sp. z o.o. Gdańsk | 28.05.2002 |
| 12. | LIMA Sp. z o.o. Gdańsk | 22.07.2002 |
| 13. | LUMA Sp. z o.o. Gdańsk | 05.11.2002 |
| 14. | KAMA Sp. z o.o. Gdańsk | 29.10.2002 |
| 15. | KUMA Sp. z o.o. Gdańsk | 05.11.2002 |
| 16. | AMUL Sp. z o.o. Gdańsk | 29.10.2002 |
| 17. | AMUK Sp. z o.o. Gdańsk | 15.05.2003 |
| 18. | AMUR Sp. z o.o. Gdańsk | 09.05.2003 |
| 19. | LPP Retail Estonia OU | 29.04.2002 |
| 20. | LPP Czech Republic s.r.o. | 16.09.2002 |
| 21. | LPP Hungary Kft | 18.10.2002 |
| 22. | LPP Retail Latvia Ltd | 30.09.2002 |
| 23. | UAB LPP | 27.01.2003 |
| 24. | LPP Ukraine | 23.07.2003 |
| 25. | RE Trading Zamknięta Spółka Akcyjna (closed joint-stock company) | 12.02.2004 |

LPP S.A. holds direct control in its subsidiaries – 100% share in capital and 100% of the total number of votes held.

The consolidated quarterly report of the Capital Group LPP S.A. was drawn up for the first time ever for Q1 FY04, therefore this report for Q3 FY04 does not include comparative data for the corresponding period in FY03.

Data presented in the report for Q3 FY04 include individual results of LPP S.A. and the Group's results for the said period. Apart from LPP S.A., the consolidated Capital Group includes the following subsidiaries:

1. LPP Retail Estonia OU;
2. LPP Czech Republic s.r.o.;

3. LPP Hungary Kft;
4. LPP Retail Latvia Ltd;
5. UAB LPP;
6. LPP Ukraine AT;
7. ZAO Re Trading.

Pursuant to Art. 58 section 1 item 1 of the Accounting Act of 29 September 1994 (consolidated text: Journal of Law of 2002, No 76 item 694), Polish subsidiaries of the Issuer have not been consolidated, as their financial data is immaterial for the Issuer as regards its obligations specified in Art. 4 section 1 of the Accounting Act.

**2. Accounting principles employed for the preparation of this consolidated report, including the financial statement; information on changes in accounting principles employed.**

The consolidated financial statement of the Capital Group has been drawn up based on financial statements of its subsidiaries, employing the same methods of valuation and principles of preparation of financial statements as the parent company.
The consolidated financial statement of the Capital Group, which is composed of subsidiaries headquartered outside of the Republic of Poland and preparing their financial statements abroad, includes relevant data presented in balance sheets of these subsidiaries and expressed 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 shareholders' equity) are converted based on 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 based on the exchange rate calculated as an arithmetic average of the 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 (with the exception of net profit) are converted based on the average exchange rate published by the National Bank of Poland for this particular currency as at the balance sheet date;
- shareholders' equity is converted as at the date of take-over of control by the parent company, based on the average exchange rate published by the National Bank of Poland as at that date;
- company shareholders' equity includes the following separate items:
  - share capital;
  - other shareholders' equity;
  - profit (loss) from previous years;
  - net financial result;
  - FX rate discrepancies, including in particular FX rate discrepancies resulting from different methods of conversion of net financial result and balance sheet into PLN.

Pursuant to accounting principles employed by the Capital Group LPP S.A. as at the balance sheet date, assets and liabilities have been valued as follows:

**- fixed assets and intangible assets-** at cost less depreciation and impairment write-downs.

Depreciation write-offs are made on the straight-line basis and the depreciation period is set pursuant to the Accounting Act of 29 September 1994.

For accounting purposes, limits adopted by the Company are equal to fiscal limits for one-off depreciation of fixed assets and exclusion of tangible fixed assets from fixed assets.

Foreign companies have also adopted this principle; however, in this case adopted limits are in line with their local regulations.

Adoption of this method was approved as discrepancies between limits adopted in individual countries are immaterial.

If the value of an asset is not in excess of the limit, the following options for recording the asset have been adopted depending on the type of this asset:

- fixed asset is recorded in the fixed assets register and subject to one-off depreciation in the month when the asset is put into use

or

- the asset is recorded in the off-balance sheet register of low-cost assets and written off on purchase (allocated to cost of consumption of materials recorded in the month of purchase).

Pursuant to the adopted accounting policy, in justified cases the Management Board may decide to adopt straight-line depreciation of low-cost assets if all the following circumstances occur simultaneously:

- if a large number fixed assets is purchased at the same time and their unit price is not in excess of the limit, but their total value is material,
- if these assets are a part of a larger set of interconnected units, and their purchase is related to an investment programme to be implemented at least over the period of normative depreciation specified for this particular group of fixed assets in tax regulations,
- if these fixed assets are high availability (HA) assets.

Detailed principles of recording and depreciation of amounts increasing the initial value of fixed assets have not changed in relation to those described in notes to the individual annual financial statement of LPP S.A. for FY03.

Valuation and amortisation write-offs of intangible assets are based on the same principles as those adopted for fixed assets described above, with the exception that there is no such notion as the upgrade of intangible assets.

Following the acquisition of 100% stake in the company Hungary LPP KFT by LPP S.A. on 18 October 2002 and the resulting discrepancy between the acquisition price and fair value of net assets of Hungary LPP KFT, positive goodwill was determined in the process of financial data consolidation.

As a result, fair value of net assets of the Hungarian company is considered to be equal to their book value based on the balance sheet drawn up by the said company as at 31 October 2002.

Considering that:

- the Accounting Act (Art. 44b item 10) sets forth the maximum period of amortisation of the company's positive goodwill of 5 years,
- acquisition of the Hungarian company took place in 2002,
- determined positive goodwill is immaterial in relation to balance sheet amounts,

the decision was taken to write off the total goodwill (one-off amortisation) and transfer it to the profit from previous years. As a result, profit from previous years was down by PLN 98,000 in the consolidated financial statement.

All other foreign subsidiaries were established by LPP S.A. in 2002-2003, and goodwill related to the consolidation of their data results only from the determination of share purchase price at the level of their share capital, increased by additional costs of their establishment.
Therefore, their goodwill was written off (one-off amortisation). As a result, profit from previous years presented in the consolidated financial statement was down by additional PLN 15,000.

**- fixed assets in progress** – in the total amount of costs directly related to their acquisition or manufacturing, less impairment write-downs.

**- long-term investments** include:

- shares in subsidiaries - at cost less impairment write-downs.
- long-term loans granted – valued at adjusted purchase price estimated based on effective interest rate.

Long-term investments include investments due or payable in the period over 12 months as at the balance sheet date.

**- long-term prepaid expenses** include:

- deferred income tax assets – re-valued as at each balance sheet date
- other prepaid expenses – include costs of capital enlargement to be settled within over year after the balance sheet date, as well as expenses related to intangible assets in the period before they are put into use.

Presentation of outlays on intangible assets before these assets were put into use has been changed.
In previous financial statements, these outlays were presented as an element of "short-term prepaid expenses"; to ensure comparability of data, presentation of data for the comparative period was adjusted.

As a result of the adjustment of comparative data presentation, the following amounts were presented under "Long-term prepaid expenses: Other prepaid expenses"
instead of under "Short-term prepaid expenses and accrued liabilities":

- as at 31 March 2003 – PLN 799k;
- as at 31 June 2003 – PLN 4.477k;
- as at 31 March 2004 – PLN 5.143k;
- as at 31 September 2003 – PLN 4.705k;

**- inventory –** valued at cost not higher that its net selling price as at the balance sheet date.

Inventory includes:

- trading commodities,
- materials for processing issued to external customers,
- consumables related to maintenance and development of computer network,
- advertising materials.

Trading commodities in local warehouses are recorded by quantity and value and valued as follows:

- imported goods – based on their purchase costs, costs of transport abroad and cost of transport in Poland up to the first unloading point in Poland, as well as based on customs duties;

currency rate specified in customs documents is used for the conversion of value expressed in foreign currency,
- goods purchased in Poland - at purchase price, and purchase-related costs are charged directly into the costs of business operations.

Value of trading commodities issued is based on weighted average prices. This method is not used by three foreign subsidiaries (these are still using the FIFO method, but are preparing to adopt the valuation method based on weighted average prices as of 1 January 2005). In addition, the FIFO method is still used by LPP S.A. for the valuation of trading commodities other than goods marketed in the network of Reserved and Cropp brand stores.

Having analysed the impact of change in the method of valuation of goods sold by LPP S.A. and situation of each of the foreign companies, i.e.:
- low turnover of foreign subsidiaries (compared to the parent company),
- mostly single deliveries of individual types of products (which means that the total stock of one type of product is delivered at uniform price),

it must be concluded that adoption of a different method of valuation of goods sold by these subsidiaries (in comparison with the parent company) has minor influence on the consolidated financial result.

Trading commodities in bonded warehouses are valued based on their purchase cost, as well as 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 (to local warehouses or sold directly abroad) is established based on detailed identification of goods on the basis of separate lots accepted at bonded warehouses.

Trading goods in transit are valued at purchase costs and costs of transport abroad and in Poland determined as the balance sheet date. For imported good in transit, the average exchange rate published by the National Bank of Poland as at the balance sheet date (in the case of foreign companies – average exchange rate published by central banks in respective countries) is adopted.

Following the change of the Accounting Act, in the case of the balance sheet valuation of assets and liabilities expressed in foreign currencies in 2004 the Company adopted the average exchange rate of the National Bank of Poland as at the balance sheet date, not the selling or purchase rate used by the Company's bank (as previously).

Based on the analysis carried out it was concluded that if current principles had been adopted before, gross financial result for comparative periods would have changed as follows:
- gross financial result for the period between 1 January 2003 and 31 March 2003 would be up by PLN 310.4k,
- gross financial result for the period between 1 January 2003 and 30 June 2003 would be up by 641.3k,
- gross financial result for the period between 1 April 2003 and 30 June 2003 (Q2) would be up by PLN 330.9k,
- gross financial result for the period between 1 January 2003 and 30 September 2003 would be up by PLN 1,303.6k,
- gross financial result for the period between 1 June 2003 and 30 September 2003 would be up by PLN 662.3k,
- gross financial result for the period between 1 January 2003 and 31 December 2003 would be up by PLN 615.6k,

- gross financial result for the period between 1 July 2003 and 31 December 2003 (H2) would be down by PLN 25.7k.

Shareholders' equity would change accordingly by these amounts less deferred income tax.

Inventory whose trading and useful value is impaired are written-down. Inventory revaluation write-downs are charged into other operating expenses.

**- receivables** – are valued in the amount due, based on the principle of prudence. The balance of receivables expressed in foreign currencies is valued as at the balance sheet date based on the average exchange rate set by the central bank in the respective country.

Receivables are re-valued as at the balance sheet date taking into consideration the probability of their repayment, based on the principle of prudence.

Receivables revaluation write-down is established based on the following principles:

- claimed receivables - in total amount due,
- minor receivables overdue over 6 months and due from a large and fragmented group of small customers - 30% of the debt,
- other receivables – based on the individual analysis of the situation and risk assessment. The analysis must take into account whether the debtor regularly settled overdue payables in the period subject to analysis and before the analysis was completed, and whether the percentage of settled payments is considerable in comparison with the value of outstanding debt.

Revaluation write-downs for receivables due from subsidiaries are not established, except in cases when there is a risk that receivables due from subsidiaries will not be settled due to their liquidation. So far such revaluations have not been required.

**- short-term investments** – include assets which are payable, mature or marketable over the period of 12 months after the balance sheet date, as well as cash.

Valuation of short-term investments as at the balance sheet date is based on the following principles:

- short term loans granted are valued at adjusted purchase price estimated based on effective interest rate,
- local cash in hand – at nominal value.
- cash in foreign currencies – at average exchange rate of the national bank as at the balance sheet date.

Cash presented under assets in the balance sheet also includes interest on loans, deposits and cash in banks calculated based on the historical cost principle as at the balance sheet date.

**- short-term prepaid expenses** – include costs to be settled within one year after the balance sheet date, such as.

- costs of property insurance,
- costs of subscriptions,
- costs of prepaid services,
- costs related to enlargement of capital – at nominal value.

**- shareholders' equity** – at nominal value.

**- payables** – are valued in the amount due. Payables expressed in foreign currencies are valued based on the average exchange rate set by the respective national bank as at the balance sheet date.

**- provisions –** at justified value estimated in a reliable way.

**Principles of consolidation:**

A method of full consolidation was employed.
Consolidation adjustments and non-consolidation:

- interest held by the parent company in shareholders' equity of subsidiaries is not consolidated;
- intercompany payables and receivables are not consolidated;
- revenues and expenses related to the Capital Group intercompany sale and purchase transactions are not consolidated;
- adjustments for unrealised profits related to the Capital Group inventory;
- interest on loans granted by the parent company to its subsidiaries (excluded from financial revenues and expenses) is not consolidated;
- adjustments of the Capital Group financial result related to deferred income tax adjustment following the establishment of a provision for interest on loans;
- adjustment of the profit from previous years following the write-off of goodwill determined individually for each subsidiary.

**3. Adjustments made in the consolidated financial statement as regards provisions, deferred income tax assets and provisions (pursuant to the Accounting Act), and revaluation write-downs on assets.**

**3.1.** The value of revaluation write-downs on receivables and claims as at 30 September 2004 is presented in the consolidated financial statement in the amount of PLN 6,269,102.08.

Receivables revaluation write-downs as at 30 September 2004 include:

| | |
|---|---|
| revaluation write-down on receivables and claimed receivables due from customers | PLN 4,528,047.46 |
| revaluation write-down of the so-called doubtful receivables: | PLN 1,554,872.55 |
| revaluation write-down of receivables due from employees and other: | PLN 127,566.49. |
| revaluation write-down of receivables under budget settlements: | PLN 58,615.58 |

Changes in receivables revaluation write-downs between 1 January and 30 September 2004 were as follows:

| | |
|---|---|
| as at 31 December 2003 | PLN 6,216,452.70 |
| write-downs made between 1 January and 30 September 2004 | PLN 2,083,034.35 |
| decrease in write-downs in previous years | PLN 1,443,601.70 |
| decrease in write-downs in 2004 | PLN 586,783.27 |
| as at 30 September 2004 | PLN 6,269,102.08 |

**3.2.** The Capital Group's consolidated financial statement as at 30 September 2004 presents inventory adjusted by the revaluation write-down in the amount of PLN 580,631.49, pursuant to Art. 34 section 5 of the Accounting Act.

**3.3.** LPP S.A. Capital Group's consolidated balance sheet as at 30 September 2004 presents provisions for payables under liabilities in the amount of PLN 1,973,787.67. These provisions include:

- provision for retirement severance payments in the amount of: PLN 300,174.67.
- provision for deferred income tax in the amount of: 1,673,613.00.

Income tax presented in the consolidated profit and loss account for the period between 1 January and 30 September 2004 amounts to PLN 5,165,471.11 and includes:

- current tax – PLN 4,944,804.43.

and

- deferred tax – PLN 220,666.68.

Deferred tax includes:

- increase in the provision for deferred income tax – up by PLN 396,227.60,
- increase in the deferred income tax asset – up by PLN 175,560.92,

**3.4.** The consolidated profit and loss account as at 30 September 2004 presents an excess of negative FX rate discrepancies over positive FX rate discrepancies of PLN 325,860.70.

**4. Achievements of the Issuer's Capital Group in the reporting period**

1. Q3 revenues from sales of the Capital Group totalled PLN 141.4m (PLN 364.5m in 3 quarters of FY04, up by approx. 37% vs. FY03). Growth in the key distribution channel (Reserved) – approx. 60%.

2. Dynamic growth of the CROPP TOWN network (32 stores) and increase of its selling area up to 7 thousand square metres.

3. Discontinuation of activities in the hypermarket sector in line with the adopted strategy (no profits are generated in this sector). The extent of this restructuring process was considerable – approx. 300 staff employed and PLN 40m in revenues in this distribution channel.

4. Completion of works related to the creation of the new image of the Reserved store in line with global trends (new stores in Warsaw – CH Arkadia and DT Centrum shopping malls at ul. Marszałkowska).

**5. Factors with significant impact on the consolidated financial results**

Key factors with positive impact on the consolidated financial results were as follows:

1. Sales growth in the Reserved network – approx. 60%.

2. High level of sales in the CROPP TOWN network to confirm the customer's good response to the new brand.

3. Actual sales outdo the forecast, which gives the company the confidence as to the feasibility of far-reaching plans of the network development in FY05 and beyond. Q4 FY04 will be the first quarter of profits generated by the network.

4. Threefold growth in revenues from sales generated Q3 FY 2004 was recorded in the foreign network vs. the corresponding period in FY03. The number of foreign stores grew to 26

(against the total number of 128 stores), and the total selling area – approx. 12 thousand square metres (against the total area of 52 thousand square metres).

5. Visible improvement in results in foreign companies – growth in gross profit margin and return on sales in Q3 supports the feasibility of the net profit forecast for Q4 FY04.

6. Profit generated in FY05 by the group of foreign companies is highly probable.

7. Net profit generated by the Russian company launched at the end of Q2.

Key factors with negative impact on the consolidated financial results were as follows:

1. Costs related to discontinued co-operation with hypermarkets (mainly costs of staff salaries and severance payments, approx. PLN 650k despite negative result on sales in the period). Total loss in this distribution channel in Q3 totalled approx. PLN 1 million. These costs will not be incurred in the future.

2. Termination of the "workplace for the disabled" status resulting in material reduction of other operating revenues (approx. PLN 2.5m).

3. Temporary reduction of the profit margin in September (down to 46%) due to necessary clearance sales of a part of the collection (autumn collection sells well and the October profit margin went back to the assumed level of 56%).

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

| Company | country | Q3 revenues in PLN '000 | share % | Q3 revenues in PLN '000 | share % |
|---|---|---|---|---|---|
| LPP S.A. | - Poland | 124,815 | 88.3 | 325,059 | 89.2 |
| LPP Retail Estonia OU | - Estonia | 3,412 | 2.4 | 8,302 | 2.3 |
| LPP Retail Latvia Ltd. | - Latvia | 1,848 | 1.3 | 5,126 | 1.4 |
| LPP Retail Czech Republic s.r.o | - the Czech Rep. | 4,492 | 3.2 | 11,138 | 3.1 |
| LPP Hungary Kft. | - Hungary | 1,994 | 1.4 | 4,678 | 1.3 |
| "UAB" LPP | - Lithuania | 1,447 | 1.0 | 3,894 | 1.1 |
| LPP Ukraine AT | - Ukraine | 1,729 | 1.2 | 4,716 | 1.3 |
| ZAO RE | - Russian | 1,631 | 1.2 | 1,631 | 0.4 |
| Total | | 141,368 | 100.0 | 364,544 | 100.0 |

**6. Post-balance sheet events not presented in the financial statement with potential significant impact on the future financial results of the Issuer's Capital Group.**

Recorded sales require a reduction of forecasted results (see below).

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

Considering that the current growth revenues is expected to continue, the Management Board estimates that sales in FY04 will reach PLN 535 m, including PLN 170 m in Q4, and identifies no threats as to the feasibility of this forecast.

Based on this level of revenues, the Management Board estimates that net profit will reach PLN 18-23 m in Q4 FY04.
This level of net profit is a result of lower growth in operating expenses vs. growth in revenues, which is typical for the retail trade in the last quarter of the year.

Therefore, the Management Board has decided to correct the annual net profit to PLN 35-40 m for consolidated results. This corresponds with individual results of PLN 40-45 m (growth in profit of up to 30% vs. FY03).

**8. Share capital**

Shareholders holding at least 5% of the total vote at the General Meeting of Shareholders of LPP S.A. as at the day of submission of the consolidated quarterly report:

**Marek Piechocki**
- number of shares: 281,428 shares
- number of votes: 981,428 votes
- share in share capital: 16.52%
- share in the total vote at the General Meeting of Shareholders: 31.62%

**Jerzy Lubianiec**
- number of shares: 279,327 shares
- number of votes: 979,327 votes
- share in share capital: 16.40%
- share in the total vote at the General Meeting of Shareholders: 31.56%

**Grangefont Limited, headquartered in London, UK**
- number of shares: 350,000 of shares
- number of votes: votes
- share in share capital: 20.55%
- share in the total vote at the General Meeting of Shareholders: 11.28%

**Polish Enterprise Fund IV, L.P., headquartered in Jersey City, USA**
- number of shares: 215,000 of shares
- number of votes: 215,000 votes
- share in share capital: 12.62%
- share in the total vote at the General Meeting of Shareholders: 6.93%

After the date of submission of the quarterly report for Q1 FY04 (date of submission: 17 May 2004) there have been no changes in the ownership structure of major blocks of Issuer's shares. On 7 and 8 July 2004, one of the members of the Issuer's Management Board who had held 5,042 shares sold 1,347 shares and now holds 3,695 shares.

**9. Legal proceedings**

Within the Capital Group, only LPP S.A. is a party in legal proceedings – claiming receivables from its customers. The total amount claimed is under 10% of the Company shareholders' equity.

**10. Related party transactions**

Neither the Issuer nor its subsidiaries concluded any transaction with their related parties of value over EUR 500,000 other than within their current operations in the reporting period.

## 11. Guarantees granted

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

## 12. Additional information relevant for the assessment of the Company's financial standing, assets, human resources, the Capital Group's financial result, and any changes thereof, as well as information relevant for the assessment of the probability of repayment of the Capital Group's payables.

The report presents basic information relevant for the assessment of the standing of the Issuer's Capital Group. According to the Management Board there are currently no threats regarding the settlement of the Capital Group's payables.

## 13. Factors likely to influence results generated by the Issuer's Capital Group in the next quarter (according to the Issuer)

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

1) sales, in particular in the Reserved and Cropp Town stores
2) exchange rate of PLN against USD and EURO.

## 14. Principles adopted for the preparation of the consolidated financial statement of LPP S.A., as well as adjustments related to provisions, deferred income tax assets and provisions (pursuant to the Accounting Act), and revaluation write-downs of assets.

### 14.1. Principles of preparation of condensed financial statement

The condensed financial statement of LPP S.A. for Q3 FY04 and for the corresponding period of FY03 has been drawn up pursuant to all accounting principles currently in force. Valuation of assets and liabilities and determination of the financial result have been based on the assumption that the Company remains a going concern in the foreseeable future.

One of the basic assumptions adopted while drawing up this report was the comparability of data included therein.
In particular, comparability had to be ensured by adopting uniform methods of:
- grouping of business operations,
- valuation of assets and liabilities,
- determination of financial result,
- preparation of the financial statement, i.e. presentation of data under relevant items in the balance sheet, profit and loss account, and cash flow statement.

The methods of valuation of assets and liabilities have not changed in comparison to those described in more detail in the report for FY03, apart from the change in method of valuation of the Reserved and Cropp trading goods sold, introduced at the beginning of the current fiscal year.

Until 31 December 2003, LPP S.A. used the FIFO method in relation to all goods issued from warehoused in Poland.
Following the purchase and introduction of a new integrated system of management of the Reserved and Cropp goods inventory, a change in the method of valuation of goods issued was required - from FIFO to the weighted average price method.
As of 1 January 2004, LPP S.A. has changed the method of valuation of the Reserved and Cropp trading goods issued. The FIFO method is still used for the valuation of other goods issued and sold by LPP S.A.; however, their impact on the Company's operations is gradually decreasing, and in some cases will be of no importance whatsoever.

To determine the impact of the change in the method of valuation of trading commodities on the balance sheet and profit and loss account, a detailed conversion of the value of the Reserved goods issued in Q4 FY03 based on the weighted average price method was made, and results were compared to the results of valuation based on the FIFO method.
Results of this analysis were as follows: the difference between the valuation of costs of sales based on the FIFO method and based on the weighted average price method amounted to PLN 12,731.33 in the entire period, which is an immaterial amount in comparison with the total costs of sales, representing under 0.04%.
The impact of the change in the method of valuation of the stock of Reserved goods, estimated based on the actual calculations as at 31 December 2003 is also immaterial – the difference in the value of inventory totalled PLN 17,361.03 (which represents a change under 0.023%).

In the reporting period, valuation of loans granted to foreign companies was also changed. Currently, these loans are valued at adjusted cost (purchase price) estimated based on effective interest rate.
In FY03, these loans were valued in the amount due, based on the principle of prudence.
As these discrepancies (old and new method of valuation of loans) are immaterial, comparative data was not changed.

Based on the analysis, it was concluded that if the adjustment purchase price had been adopted for valuation of loans, the financial result for comparative periods would be down by:

- as at 31 March 2004 – PLN 9.4k
- as at 30 September 2003 – PLN 12.5k
- as at 30 June 2003 – PLN 9.8k
- as at 31 March 2003 – PLN 6.7k

In 2004, the method of valuation regarding exchange rate of foreign currencies used in the balance sheet valuation of assets and liabilities expressed in foreign currencies also changed.
The impact of this change was described in Section 2 in the presentation of principles employed for the preparation of the financial report.

**14.2. Revaluation write-downs on assets and provisions**

The value of revaluation write-downs on receivables and claims presented in the individual financial statement as at 30 September 2004 totalled PLN 6,269,102.08.

Receivables revaluation write-downs as at 30 September 2004 include:

| | |
|---|---|
| revaluation write-down on receivables and claimed receivables due from customers PLN | PLN 4,528,047.46 |
| Revaluation write-down of the so-called doubtful receivables: | PLN 1,554,872.55 |

revaluation write-down of receivables due from employees and other: PLN 127,566.49.
revaluation write-down of receivables under budget settlements: PLN 58,615.58

Changes in receivables revaluation write-downs between 1 January and 30 September 2004 were as follows:

| | |
|---|---|
| as at 31 December 2003 | PLN 6,216,452.70 |
| write-downs made between 1 January and 30 September 2004 | PLN 2,083,034.35 |
| decrease in write-downs in previous years | PLN 1,443,601.70 |
| decrease in write-downs in 2004 | PLN 586,783.27 |
| as at 30 September 2004 | PLN 6,269,102.08 |

Pursuant to Art. 35b of the Accounting Act, receivables revaluation write-downs have been included into other operating expenses or financial expenses, respectively.
Decrease in revaluation write-downs was made due to the fact that receivables were subject to prescription or considered irrecoverable, or because the reason for the revaluation write-down no longer exists (the payment was made). In the latter case, the write-down made earlier was included into other operating revenues or financial revenues.

In its financial statement as at 30 September 2004, LPP S.A. also presented inventory revaluation write-down, pursuant to Art. 34 section 5 of the Accounting Act.
Inventory revaluation write-down as at 30 September 2004 amounted to PLN 475,050.17, down by 22,709.76 vs. the balance as at 30 June 2004.

The Company's liabilities presented in the individual balance sheet as at 30 September 2004 include provisions for payables in the amount of PLN 1,887,759.47.
These provisions include:

- provision for retirement severance payments in the amount of: PLN 230,776.76.
- provision for deferred income tax in the amount of: PLN 1,656,982.71.

Income tax presented in the individual profit and loss account for the period between 1 January and 30 September 2004 amounts to PLN 5,271,615.61 and includes:
- current tax – PLN 4,757,987.33.
and
- deferred tax – PLN 513,628.28.

Deferred tax includes:

- increase in the provision for deferred income tax – up by PLN 420,396.29,
- decrease in the deferred income tax asset – up by PLN 93,231.99.

In addition, the individual financial statement as at 30 September 2004 presents valuation of assets and liabilities expressed in foreign currencies.
This valuation presents the excess of negative FX rate discrepancies over positive FX rate discrepancies in the amount of PLN 496,955.86.