CONSOLIDATED ANNUAL REPORT OF LPP S.A. CAPITAL GROUP FOR THE YEAR 2009

INCLUDING:

- LETTER FROM THE PRESIDENT OF THE MANAGEMENT BOARD TO THE SHAREHOLDERS
- SELECTED FINANCIAL DATA FOR 2009 AND 2008
- CONSOLIDATED FINANCIAL STATEMENT
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- STATEMENTS OF THE MANAGEMENT BOARD

April 2010

LETTER FROM THE PRESIDENT OF THE MANAGEMENT BOARD TO THE SHAREHOLDERS

Dear Shareholders,

Last year's receipts of LPP S.A. Capital Group exceeded PLN 2 billion, whereas the achieved net income was PLN 105 million. The amount of receipts illustrating the scope of our operations makes it possible to recognise us a significant entity in the clothing industry of the Central and Eastern Europe region. Unfortunately, the net profit is visibly lower than the value achieved in 2008, which is a direct consequence of an unfavourable market situation. However, it must be remembered that the changes introduced during several quarters of the year in order to reduce the cost of LPP S.A. Capital Group operations have positively influenced the amount of achieved profit.

Despite a deterioration in the economic situation we intensively developed our sales networks, acquiring 64 thousand sq m of retail space. At the end of the last year there was a network of 841 shops of a total area exceeding 288 thousand sq m at our disposal.

A significant event in the life of LPP S.A. Capital Group was the completion of an integration process with a previously purchased entity - Artman S.A. The process was carried out according to the assumptions which enforced a series of sometimes complex organisational changes. I am convinced that the acquired branches House and Mohito will prove highly effective, ensuring that we achieve good results.

LPP S.A. Capital Group has been involved in retail trade for over ten years. For the last two years the overall area of our retail establishments, a factor determining a company's size, has increased by 100 per cent. We conducted a series of activities oriented to accomplish the assumptions of rapid growth, in recognition of the fact that it is a great opportunity for us, since we participate in creating the structures of modern retail trade in this part of Europe. This participation has provided us a possibility to achieve a high position in the market.

We are going to go on developing our retail chains, assuming an increase in their area by between ten and twenty per cent annually. However, it is in the following years that we will implement numerous plans aimed to boost the effectiveness of the conducted operations. After a period of intense growth we recognise that an increase in profit margin will be a priority.

I am convinced that the improvements that are currently being introduced will contribute to the implementation of an efficiency improvement strategy in the future as well, to the satisfaction of all Shareholders.

President of the Management Board

Marek Piechocki

SELECTED CONSOLIDATED FINANCIAL DATA FOR THE YEARS 2009 AND 2008

Selected financial data – consolidated statements

Selected financial data	2009	2008	2009	2008
	in PLN '000		in EUR '000	
1. Net revenues from sales of products, goods and materials	2,003,095	1,622,999	461,479	459,500
2. Operating profit (loss)	181,278	214,774	41,763	60,806
3. Gross profit (loss)	139,251	213,225	32,081	60,368
4. Net profit (loss)	104,634	167,507	24,106	47,424
5. Net cash flow from operating activities	318,099	195,433	73,285	55,331
6. Net cash flow from investing activities	-71,177	-577,244	-16,398	-163,428
7. Net cash flow from financing activities	-139,271	418,210	-32,086	118,403
8. Total net cash flow	107,651	36,399	24,801	10,305
9. Total assets	1,361,603	1,426,208	331,435	341,820
10. Long term liabilities	347,725	322,316	84,642	77,250
11. Short term liabilities	328,289	538,657	79,911	129,100
12. Equity	685,589	565,235	166,883	135,470
13. Core capital	3,501	3,492	852	837
14. Weighted average number of ordinary shares	1,726,514	1,691,857	1,726,514	1,691,857
15. Profit (loss) per ordinary share (in PLN)	60.60	99.01	13.96	28.03
16. Book value per share (in PLN/EUR)				

Profit per ordinary share was calculated as the net profit divided by the weighed average number of shares. Book value per share was calculated as the equity divided by the weighed average number of shares.

Marek Piechocki

President of the Management Board

Dariusz Pachla	*Hubert Komorowski*	*Piotr Dyka*	*Jacek Kujawa*
Vice-President of the Management Board	Vice-President of the Management Board	Vice-President of the Management Board	Vice-President of the Management Board

CONSOLIDATED FINANCIAL STATEMENT OF LPP S.A.

For the financial year ended 31 December 2009

1. Consolidated Balance Sheet

Balance Sheet	Notes	As at 31/12/2009	31/12/2008
ASSETS			
Fixed assets (long term)		739,993	766,704
1. Tangible fixed assets (PP&E)	13.1	442,117	469,077
2. Intangible assets	13.2	12,763	13,964
3. Goodwill	13.3	183,609	183,609
4. Trademark	13.2	77,508	77,508
5. Shares in subsidiaries	13.4	719	719
6. Receivables and loans	13.7	1,057	1,773
7. Deferred income tax assets	13.22	22,045	19,857
8. Accruals	13.9	175	197
Current assets (short term)		621,610	659,504
1. Inventories	13.5	322,756	462,644
2. Receivables	13.6	93,426	100,895
3. Loans	13.7	541	446
4. Accruals	13.9	7,405	5,688
5. Cash and cash equivalents	13.10	197,482	89,831
TOTAL assets		**1,361,603**	**1,426,208**

LIABILITIES			
Equity		685,589	565,235
1. Core capital	13.11	3,501	3,492
2. Treasury shares		-48,749	-48,746
3. Share premium account	13.11	108,123	108,123
4. Other reserves	13.11	512,189	328,261
5. Foreign exchange differences on translation of foreign entities		509	-3,069
6. Retained earnings			176,860
- Profit (loss) from previous years		5,382	9,353
- net profit (loss) for the current period		104,634	167,507
7. Minority interests			314
Long-term liabilities		347,725	322,316
1. Bank credits and loans	13.16	227,270	306,097
2. Issue of debt securities	13.17	115,514	
3. Other financial liabilities		215	359
4. Provisions for employee benefits	13.13	1,031	874
5. Deferred income tax provision	13.22	3,695	14,844
6. Other long-term liabilities			142
Short-term liabilities		328,289	538,657
1. Trade liabilities and other liabilities	13.18	225,329	248,192
2. Income tax liabilities		14,314	30,848
3. Bank credits and loans	13.16	76,472	246,966
4. Issue of debt securities	13.17	5,465	
5. Other financial liabilities		367	432
6. Provisions	13.13	2,863	8,297
7. Special funds		463	57
8. Accruals	13.19	3,016	3,865
TOTAL liabilities		**1,361,603**	**1,426,208**

Book value	685,589	565,235
Weighted average number of ordinary shares	1,726,514	1,691,857
Book value per share (in PLN)	397.09	334.09

2. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Profit and loss account	Notes	01/01/2009-31/12/2009	01/01/2008-31/12/2008
Net sales revenues	13.20	2,003,095	1,622,999
Cost of Sales		945,223	657,969
Gross profit/loss on sales		1,057,872	965,030
Other operating revenues	13.20	28,184	8,647
Selling costs	13.21	772,647	637,437
General management costs	13.21	89,896	93,248
Other operating costs	13.21	42,235	28,218
Profit/loss from operating activities		181,278	214,774
Financial revenues	13.20	2,976	18,376
Financial costs	13.21	45,003	19,925
Gross profit/loss		139,251	213,225
Tax liabilities	13.22	34,530	45,718
Net profit (loss) from continuing operations		**104,721**	**167,507**
Net profit of parent company		104,721	167,474
Net profit of minority shareholders			33
Discontinued operations			
Net profit/loss from discontinued operations		-87	
Net profit/ loss		104,634	
Other comprehensive income			
Foreign exchange differences on translation of foreign subsidiaries		3,578	-2,790
Total comprehensive income		108,212	164,717
Weighted average number of ordinary shares		1,726,514	1,691,857
Profit (loss) per ordinary share (in PLN)		60.65	99.01

Earnings per share for each period are calculated by dividing the net profit for the period by the weighed average number of shares within the period.

3. Statement of changes in equity

Statement of changes in equity	Core capital	Treasury shares	Share premium account	Other reserves	Foreign exchange differences on translation of foreign subsidiaries	Profit (loss) from previous years	Profit/loss from the current period	Minority interests	TOTAL equity
As of 1 January 2008	3,407		71,202	203,650	-279	127,682	0	0	405,662
- adjustments of errors from previous years						-22			-22
As at 1 January 2005	3,407		71,202	203,650	-279	127,660	0	0	405,640
Purchase of treasury shares		-48,746							-48,746
Core capital increase	85								85
Net profit appropriation for the year 2007				118,401		-118,401			0
Share-based payments				6,354					6,354
Issue of shares above par value			36,921						36,921
Revaluation of goodwill				-144					-144
Determination of minority interest as at the balance sheet day								314	314
Other						94			94
Transactions with owners	85	-48,746	36,921	124,611	0	-118,307	0	314	-5 122
Net profit for the year 2008							167,507		167,507
Calculation of foreign exchange differences on translation of entities					-2,790				-2,790
As at 1 January 2008	**3,492**	**-48,746**	**108,123**	**328,261**	**-3,069**	**9,353**	**167,507**	**314**	**565,235**

Statement of changes in equity

	Core capital	Treasury shares	Share premium account	Other reserves	Foreign exchange differences on translation of foreign subsidiaries	Profit (loss) from previous years	Profit/loss from the current period	Minority interests	TOTAL equity
As at 1 January 2009	3,492	-48,746	108,123	328,261	-3,069	176,860	0	314	**565,235**
- adjustments of errors from previous years						-529			0
As at 1 January 2009 after adjustments	3,492	-48,746	108,123	328,261	-3,069	176,331	0	314	**564,706**
Purchase of treasury shares		-3							-3
Core capital increase	9								9
Net profit appropriation for the year 2008				170,949		-170,949			0
Share-based remuneration payments				1,955					1,955
Transactions with minority interest				-1,266					-1,266
Determination of minority interest as at the balance sheet day								-314	-314
Capital component of convertible bonds				12,290					12,290
Transactions with owners	9	-3	0	183,928	0	-170,949	0	-314	12,671
Net profit for the year 2009							104,634		104,634
Foreign exchange differences on translation of entities					3,578				3,578
As at 1 January 2009	**3,501**	**-48,749**	**108,123**	**512,189**	**509**	**5,382**	**104,634**	**0**	**685,589**

4. Consolidated cash flow statement

Cash flow statement	01/01/2009-31/12/2009	01/01/2008-31/12/2008
A. Cash flows from operating activities - indirect method		
I. Gross profit (loss)	139,164	213,225
II. Total adjustments	178,935	-17,792
1. Amortisation and depreciation	96,131	66,360
2. Foreign exchange (gain) loss	-2,003	539
3. Interest and share in profits (dividends)	23,959	11,819
4. (Profit) loss from investing activities	1,939	8,478
5. Income tax paid	-65 153	-39 149
6. Change in provisions	-2,754	2,108
7. Change in inventories	127,163	-121,908
8. Change in receivables	18,069	-14,865
9. Change in short-term liabilities, excluding loans and credits	-16,948	69,449
10. Change in accruals	-2,159	238
11. Other adjustments	691	-861
III. Net cash flow from operating activities	318,099	195,433
B. Cash flow from investing activities		
I. Inflows	25,200	7,383
1. Disposal of intangible and tangible fixed assets	23,585	3,955
2. From financial assets, including:	1,615	3,428
a) in affiliated entities	1,074	1,239
- dividends and profit sharing	1,074	1,239
b) in other entities	541	2,189
- disposal of financial assets		
- interest	31	156
- repayment of short-term loans granted	510	2,033
- repayment of long-term loans granted		
- other receipts from financial assets		
3 . Other investment receipts		

II. Expenditure	96,377	584,627
1. Acquisition of intangible assets and tangible fixed assets	94,797	252,869
2. On financial assets, including:	0	852
a) in ralated parties	0	0
- acquisition of shares		
b) in other entities	0	852
- short-term loans granted		59
- long-term loans granted		793
3. Other investing outflows	1,580	330,906
III. Net cash flow from investing activities	-71,177	-577,244
C. Cash flow from financing activities		
I. Inflows	164,486	634,549
1. Net inflows from issue of shares	8	37,005
2. Credits and loans	36,675	597,544
3. Issuue of debt securities	127,803	
4. Other financial inflows		
II. Expenditure	303,757	216,339
1. Purchase of treasury shares	3	48,746
2. Repayment of credits and loans	279,801	148,901
3. Payments under finance lease agreements	502	542
4. Interest	23,451	18,150
5. Other financial outflows		
III. Net cash flow from financial activity	-139,271	418,210
D. Total net cash flow	107,651	36,399
E. Balance sheet change in cash, including	107,651	36,399
- change in cash – foreign exchange differences	-2,368	3,540
F. Opening cash balance	89,831	53,432
G. G. Closing cash balance, including:	197,482	89,831
- restricted cash	495	68

NOTES TO THE CONSOLIDATED FINACIAL STATEMENT OF LPP S.A. CAPITAL GROUP FOR THE YEAR 2009

INTRODUCTION

1. General information

Name and location of parent company LPP Capital Group:

LPP SPÓŁKA AKCYJNA
with its registered office in Gdańsk, Poland
ul. Łąkowa 39/44
Postcode: 80-769

Core business:

- wholesale sales of clothing, classified in item 51.42 Z of the Polish Classification of Economic Activities (PKD) as "wholesale sales of clothing and footwear",
- retail sales of clothing, classified in item 52.42 Z as "retail sale of clothing"

District court of competent jurisdicttion for the parent company
LPP SA is registered in the District Court Gdańsk-Północ in Gdansk, VII Commercial Division of the National Court Register

Place of business
The Group runs its business in the following countries:

- Poland,
- Estonia,
- the Czech Republic,
- Lithuania,
- Latvia,
- Hungary,
- Russia,
- Ukraine
- Romania
- Bulgaria,
- Slovakia

Sector as classified by the Warsaw Stock Exchange:

Shares of the parent company, LPP S.A. are listed on the main market of the Warsaw Stock Exchange and classified in the sector “trade”.

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

Members of the Management Board:

- Marek Piechocki - President of the Board
- Dariusz Pachla - Vice President of the Board
- Hubert Komorowski - Vice President of the Board
- Piotr Dyka - Vice President of the Board
- Jacek Kujawa - Vice President of the Board

During the last financial year there have been changes in the composition of the Management Board, resulting from the resignation of its three members: Ms Alicja Milińska, Mr Aleksander Moroz, Mr Stanisław Dreliszak and the appointment of new members of the LPP SA Management Board: Mr Piotr Dyka, Mr Hubert Komorowski, Mr Jacek Kujawa (RB 44/2009, RB45/2009, RB 54/2009, RB55/2009).

Members of the Supervisory Board:

- Jerzy Lubianiec - chairman of the Supervisory Board
- Krzysztof Olszewski - memeber of the supervisory board
- Wojciech Olejniczak - memeber of the supervisory board
- Maciej Matusiak - memeber of the supervisory board
- Krzysztof Fąferek - memeber of the supervisory board

During the finacial year there have been changes in the composition of the Supervisory Board resulting from the resignation of one of the Supervisory Board memebers - Mr Antoni Tymiński (RB
52/2009).

3. Description of LPP Capital Group

LPP Capital Group (CG, Group) is composed of:

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

There is no parent company of LPP S.A.

The complete list of Capital Group companies is presented below.

No.	Company name	Registered office	Date of taking control over
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 *	Moscow, Russia	12.02.2004
27.	LPP Fashion Distribuitor 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 Rep.	30.10.2008
33.	UAB Artman Ltd	Vilnius, Lithuania	30.10.2008

* Zamknięta Spółka Akcyjna (closed joint stock company)

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

Consolidated financial statement of the Capital Group covering the period between 1 January and 31 September 2009 covers individual results of LPP S.A. and results of foreign subsidiaries listed below:

- LPP Retail Estonia OU
- LPP Czech Republic s.r.o.
- LPP Hungary Kft
- LPP Retail Latvia Ltd
- UAB LPP
- LPP Ukraina AT
- ZAO Re Trading
- LPP Fashion Distribuitor srl.
- ES Style
- Fashoin Point
- LPP Retail Bulgaria Ltd.
- Artman Slovakia srl
- Artman Mode s.r.o.
- UAB Artman Ltd

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 the results disclosed in the financial statement of this entity are immaterial against data disclosed in the financial statement of the parent company. In particular, the balance sheet total, net revenues from sales of goods and services, and financial transactions of the entity, which represented less that 10% of the balance sheet total and revenues of the parent company in the reporting period, shall be considered immaterial. The total amount of balance sheet totals and revenues of non-consolidated entities must not exceed this level, but established in relation to relevant amounts of the consolidated financial statement, based on the assumption that the statement covers all subsidiaries and associates with no exceptions.

Share in consolidated results of all non-consolidated Polish subsidiaries is as follows:

- in the Capital Group's balance sheet total – 0.12 %
- in the Capital Group's revenues from sales and financial revenues - 1.20 %.

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, Cropp, House and Mohito brands outside Poland. Clothing is basically the only product sold by the CG companies. The basic offer of CG companies is supplemented by footwear, bags and accessories.
Designs of clothing are prepared in the design office located at the registered office of LPP S.A. in Gdańsk and the design office in Krakow, and then circulated to the purchasing department, which contracts the production of individual products in co-operation with production plants in Poland and abroad. Production in China is managed by the Company's trading office in Shanghai.
The Capital Group also generates small revenues from sales of services (these include only the revenues generated by the parent company – 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.

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

Under the Accounting Act of 29 September 1994 (consolidated text: of 2 September 1994 Journal of Laws No 152 item 1223) on 1 January 2005 the LPP Capital Group presents its consolidated financial report on the basis of International Financial Reporting Standards (IFRS) and related interpretations, published as European Commission Regulations. In matters not covered by IFRS, provisions of the Accounting Act shall be applied. Financial statements covering periods starting before 1 January 2005 were prepared based on the Accounting Act and its implementing provisions. The Group has not exercised its right arising from a change in IAS 1, concerning the loans grated to subsidiaries and does not classify those loans as subordinated loans.

The report contains the Group's consolidated financial statement and the individual financial statement of LPP S.A. The report was prepared in accordance with IFRS.

This consolidated financial statement was drawn up in PLN '000.

5. Declaration of compliance with IFRS

The presented consolidated financial statement covers the period between 1 January 2009 and 31 December 2009. Comparable data are presented for the period between 1 January 2008 and 31 December 2008.

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

and the Commission for and International Financial Reporting Standards Interpretation Committee.

Changes in standards or interpretations effective and adopted by the Group from 2009.

The following new and amended standards and interpretations, effective from 1 January 2009, have influnced the accounting principles adopted when drawing up this consolidated financial statement.

- IAS 1 (amendment) Presentation of Financial Statements
- IFRS 8 Operating segments
- IAS 23 (amendment) Borrowing costs
- IFRS 2 (amendment) Share-based payment - the amendment relates to transaction conditions that determine granting of equity instruments
- IAS 32 (amendment) Financial instruments: presentation and IAS 1 (amendment) Presentation of financial instruments - the changes relate to presentation of certain financial instruments which give the holder a right to put it back to the issuer for purchase (so called puttable instrument),
- IFRS 1 (amandment) First time adoption of IFRS and IAF 27 (amendment) "Consolidated and Separate Financial Statements" - introduction of a new exemption at the transition to IFRS in the scope of measuring investments in subsidaries and regulation of the accounting principles in case of the group's reorganisation by forming a new parent company,
- Amendments to IFRS arising from the draft of annual adjustments (Annual Improvements Project 2008),
- IFRS 7 (amendment) Financial instruments: Disclosures - extension of disclosures relating to fair value,
- IAS 39 (amendment) Financial instruments: recognition and measurement and IFRIC 9

(amendment) Reassessment of Embedded Derivatives - an amendment to a regulation in connection with IAS 39 amendment effecive from 2008, allowing reclassification of assets measured at fair value by profit or loss for the period (Amendments approved by the European Commission for application from 1.01.2009)

- IFRIC 13 Customer Loyalty Programmes
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements (interpretation approved by the European Commission for application from 1.01.2009).

The list of legally binding standards and interpretations in a version published by IASB from 2009 but not approved by the European Commission is presented underneath in the entry relating to standards and interpretations which have not come into force.

The consolidated financial statement was significantly influenced mainly by the amended IAS 1. The Capital Group also adopted IFRS 7 amendments, expanding the disclosures for financial instruments and presented the required disclosures. Amended IAS 23 and IFRS 8 were also adopted. Their application, however, has no influence on the presented financial statement.

IAS 1 Presentation of Financial *Statements*
Amendment IAS 1 was adopted retrospectively. The standard did not influence the financial situation or the financial result of the Group but introduced new principles of presentation and information disclosure. The principles of measurement and recognition of assets, liabilities, receivables, and costs remained unchanged, except for items that had been put directly into capital and now are part of Total Income Statement e.g. reassessment of tangible assets.

As a result of IAS 1 adoption the following changes in presentation of the main elements of the financial statement have been introduced:
The Group has drawn up a new element of the consolidated financial statement 'Uniform consolidated statement of comprehensive income of LPP Capital Group'. The LPP Capital Group changed the structure of the “Statement of Changes in Consolidated Equity of LPP CG” – changes in equity resulting from transactions with owners are presented first, followed by the impact of comprehensive income on equity, resulting from the 'Uniform consolidated statement of comprehensive income of LPP Capital Group.
The Capital Group does not apply the revised names of specific elements of the financial statement, using a standard accepted possibility of using terminology different from IAS.

IFRS 8 Operating segments
IFRS 8 replaced IFRS 14 'Operating segments reporting' and it was adopted by the Group retrospectively. IFRS 8 requires an entity to report information on its operating segments on the basis of an internal reporting system for management needs. Management approach determines how segments are identified and their results measured. Thus, the measurement of the operating segment results may differ from the accounting principles arising from IFRS.
IAS 14 required segment identification based on the criterion of risk and returns from investments as well as the measurement of the segment profit or loss according to IFRS.
In connection with the adoption of IFRS 8 the necessity did not arise to identify new different segments. A division into geographical segments was adopted by the Group as the main reporting arrangement, which is due to its business activity in different geographical areas. Therefore, the arrangement of segments applied in the previous reports of the Group is maintained.

IAS 23 Borrowing *costs*
The revised standard cancels the previous matrix approach allowing recognition of external funding costs in the profit and loss statement and requires recognition of external financing costs in acquisition cost or the manufacturing cost of the adjusted element of assets. Financial costs that are directly attributable to the acquisition, construction or production, or adaptation

of a qualifying asset and whose duration will be over one year should be capitalised. Currently, the Group does not own such assets.

Application of a standard or interpretation before the effective date.

Early voluntary application of a standard or application was not used in this financial statement.

The published standards and interpretations which have not come into force as at 31 December 2009 and their influence in the Group's statement.

The following standards and interpretations, as published by IASB from 2009 or before have not been approved by the European Commission as binding for statements drawn as at 31 December 2009:

- IFRIC 12 Service Concession Arrangements - interpretation accepted by the European Commission for adoption in statements for periods commencing on or after 31.03.2009,
- IFRIC 15 Agreements for the Construction of Real Estate - interpretation accepted by the European Commission for application in statements commencing after 31.12.2009,
- IFRIC 16 Hedges of a Net Investment in Foreign Operation - interpretation accepted by the European Commission for use for reporting periods commencing after 30.06.2009

In the Group's assessment the above mentioned regulations will not influence the consolidate financial statement.

Up to the day when this statement was drawn up new or amended standards and interpretations were published, effective for annual periods commencing after the year 2009:

- IFRS 3 (amendment) Business Combinations and IAS 27 (amendment) Consolidated and Separate Financial Statements: effective date: periods commencing on or after 1 July 2009. The amended IFRS 3 introduces a new approach to the determination of a company's goodwill (so called entity approach) as a result of which the goodwill from acquisition is determined as at the moment of gaining control in relation to the whole entity, and not as before in proportion to the share owned by the acquiring company. The previously applied principles concerning the accounting of multi-stage acquisition expire. The standards also introduce changes in the minority equity measurement as well as in the methods of recognising transactions between the parent company and the minority, which do not result in loss of control (capital transactions not influencing profit and loss statement). In the assessment of the Group the implementation of standard changes will not significantly influence the consolidated financial statement, as there are no reasons to apply this IFRS.
- IAS 39 (Amendment) Financial Instruments: Recognition and Measurement - effective date: annual periods commencing on or after 1 July. The amendments provide clarifications as to what may be considered a hedging instrument and a hedged instrument and guidance as to the effectiveness of hedging. According to a preliminary assessment the application of changes will not significantly influence the consolidated financial statement.
- IFRS 1 (Amendment) First-Time Adoption of IFRS - effective date: annual periods commencing on 1 July 2009 or later. Changes were introduced in the organisation of the standard text. The changes do not influence the consolidated financial statement of the Group.
- Amendments to IFRS resulting from the draft of annual adjustments/improvements 'Annual Improvements Project 2009') applicable for annual periods commencing on 1 July 2009 or 1 January 2010 or later. Application of the changes will not significantly influence the consolidated financial statement.
- IFRS 2 (amendment) Share-based Payment - effective date: annual periods commencing on 1 January 2010 or later. The changes specify the way of recognising

schemes of share-based payment for several entities of the capital group. The Group is in the process of assessment of the influence of the change on the consolidated financial statement.

- IFRS 1 (Amendment) First-Time Adoption of IFRS - effective date: annual periods commencing on or after 1 July 2010. The standard introduces additional exemptions as to the measurement of assets due to searching and assessment of mineral resources and assessment of the type of lease agreements. The changes do not influence the consolidated financial statement of the Group.
- IAS 32 Financial Instruments: Presentation - effective date: annual periods commencing on or after 1 February 2010. The standard introduces a change in approach to classification of instruments settled in own capital instruments denominated in a foreign currency. The change will not significantly influence the consolidated financial statement.
- IAS 24 (amendment) Related Party Disclosures Disclosures - effective date: annual period commencing on or after 1 January 2011. The changes in the standard comprise exemptions from disclosure of information relating to state-controlled entities and introduce a new definition of related parties. The Group is in the process of assessment of the influence of the change on the consolidated financial statement.
- IFRS 24 (amendment) Financial Instruments: Classification and Measurements - effective date: for annual periods commencing on or after 1 January 2013. The new standard is to replace the current IAS 39. The published first part of IFRS so far only contains regulations related to classification and measurement of financial assets. The Group is in the process of assessment of the influence of the change on the consolidated financial statement.
- IFRIC 14 (amendment) IAS 19 – The Limit on a defined Benefit Asset. Minimum Funding Requirements - effective date: annual periods commencing on or after 1 January 2011. The change in interpretation introduces a modification of principles in the scope of recognition of advance premiums. The change will not significantly influence the consolidated financial statement.
- IFRIC 17 Distributions of Non-cash Assets to Owners - effective date: annual periods commencing on or after 1 July. According to the interpretation non-cash dividend should be measured in fair value of transferred assets, and the difference between the fair value and balance value should be included in the financial result. The interpretation will not significantly influence the consolidated financial statement.
- IFRIC 18 Transfer of Assets from Customers - effective date: annual periods commencing on or after 1 July 2009. The interpretation is applied to agreements under which the customer transfers an element of tangible assets used to supply electricity, gas or water. According to a preliminary assessment the application of the interpretation will not significantly influence the consolidated financial statement.
- IFRIC 19 Extinguishing Financial Liabilities with Equity - effective date: annual periods commencing on 1 July 2010 or later. The interpretation regulates the procedures in cases, when a liability is settled not by payment but by issuance of own equity instruments of an entity. According to a preliminary assessment the application of the interpretation will not significantly influence the consolidated financial statement.

6. Continuation of activity

The consolidated financial statement for the year 2009, financial statement of the Parent Company and statements of subsidiaries which are the basis for the consolidated financial statement were drawn up based on the assumption the group remaining a going concern in the foreseeable future and that their respective businesses are not restricted to a considerable extent.
Based on the information available as at the date of preparation of the financial statement, the going concern assumption adopted in this financial statement is fully justified.

7. Date of approval for publication

This financial statement was approved for publication by the Management Board of the parent company of LPP Capital Group on 15 April 2010.

8. Post-balance sheet events

As per IAS 10, events after the balance sheet date (post-balance sheet events) include all events that occurred between the balance sheet date and the date that the financial statement is authorised for issue).
The Management Board is authorised to adjust the financial statement after its publication.

9. Principles of measurements of assets and liabilities and measurement of financial result adopted when drawing upthe financial statement

*Tangible fixed assets*and *intangible assets*
Fixed assets (PP&E) are initially carried at cost, increased by all costs directly related to the purchase and necessary to bring the asset to working condition for its intended use. Costs incurred after the date when the fixed assets were put into use, including costs of maintenance and repairs, are charged into the profit and loss account as they are incurred.
As at the balance sheet date, fixed tangible assets are measured at cost less depreciation and impairment write-downs.
The Capital Group's depreciation write-offs are made on a straight-line basis. Fixed assets (PP&E) are depreciated over the asset's expected useful life. The economic useful life of PP&E is reviewed on an annual basis.
Value of fixed assets is also subject to periodic verification for any potential reduction arising from events or changes in the business environment or within the company itself which could cause reduction of value of these assets down to below their current book value.
When depreciation rates for fixed assets are specified, the company determines whether there are some components of the asset, whose purchase price is of any significance when compared to the purchase price for this asset and the useful life of those components differs from the useful life of the remaining part of an asset.

For accounting purposes, based on the materiality principle, adopted threshold amounts are equal to tax threshold amounts in order to adopt one-off depreciation of fixed assets or exclude an asset from fixed assets.
According to the above, the LPP CG adopted the principle that in each case when the initial carrying amount of a fixed asset or property right exceeds PLN 3,500, monthly depreciation write-offs are made starting from the month following the month when the asset is put into use.

If the initial carrying amount of the fixed asset is below PLN 3,500, two accounting methods were adopted based on the materiality principle:

- the asset is recorded in the fixed assets register or intangible assets register and depreciated on a one-off basis in the month when the asset is put into use;

or

- the asset is recorded in the off-balance sheet register and written off on purchase.

Under the accounting policy adopted by the Capital Group, straight-line depreciation of low-price assets may be adopted in justified cases by a Management Board decision if all the following circumstances occur simultaneously:

- if many fixed assets are purchased at the same time and their unit price is not in excess of the threshold amount, but their total value is material, • if these assets are a part of a larger set of uniform and/or interconnected units, and their purchase is related to an extensive 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 quality and high availability (HA) assets.

Intangible assets are measured and amortised in the same way as tangible fixed assets. The main difference is that it is not possible to increase the initial carrying amount of intangible assets by the amount of their improvement (upgrade), unless these upgrades can be used to generate future economic benefits exceeding benefits initially assumed.

Fixed assets*in progress* – as at the balance sheet day are carried in the total amount of costs directly related to their acquisition or construction, less impairment write-downs.

*Borrowing*costs

Under IAS 23 Borrowing costs, all costs that may be attributed to the qualifying assets are capitalised.

Qualifying assets are those which require a substantial period of time to get ready for their intended use. The Capital Group assumed that a substantial period of time is a period of 1 year. Thus, all the borrowing costs are capitalised on the condition that they were not qualified for a period lasting for 1 year or longer. All other insubstantial costs related to assets are recognised directly in the financial result.

Borrowing costs may include above others the following:

- interest on bank loans bank loans in the current account and interest on short-term and long-term loans and credits
- differences in exchange rates in connection with the loans and credits granted in foreign currencies.

Capitalisation of borrowing costs commences on the day when borrowing costs on a qualifying asset are incurred and activities necessary to prepare the asset for its intended use or sale are undertaken. LPP ceases to capitalise borrowing costs when a qualifying asset is transferred for use.

Lease

A lease agreement is an agreement under which, in return for a fee or a series of fees, a lessor transfers to the lessee the right to use a component of assets for an agreed period of time.

The Group adopted application of IAS 17 regulations*Leases* determining the accounting principles binding for lessees and the scope of disclosure concerning the lease.

Finance lease is an agreement that transfers substantially all the risks and rewards incident to ownership. The title may be finally transferred but it is not obligatory.

Operating lease is a lease agreement different from a finance lease agreement.

Finance lease

At commencement of the lease term, the Capital Group as the lessee records financial lease as assets and liabilities at amounts equal to the fair value of the subject of the lease determined as at the day of lease commencement if it is lower than fair value. When calculating minimum current value of lease payments, the discount rate is the borrowing rate of the lease if determinable. Otherwise, the lessee's incremental borrowing rate of interest is applied. All direct lease costs increase the amount recorded as a component of assets.

Minimum lease payments are divided into financial costs and reduction of the balance due. Financial costs are so allocated to specific periods of time within the lease term to obtain a

periodic fixed interest rate in relation to the balance due. Contingent lease payments are charged to costs in the periods when they were incurred. Finance lease gives rise to depreciation expense for a depreciable asset, as well as finance expense for each accounting period. The depreciation policy for depreciable leased assets shall be consistent with that for depreciable assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life. If there is a reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use of the asset is equal to its life useful life. The Capital Group shall present in the balance sheet depreciation of the lease subjects and - as finance costs - interest proportion of the lease payments for the period. Liabilities due to future lease payments less the interest proportion payable within a period exceeding a year are recognised in long-term liabilities, whereas liabilities due to lease payments less the interest proportion payable within a period of a year are recognised in short-term liabilities.
In case of qualifying a lease agreement as a finance lease in terms of accounting under the regulations of IAS
17 and in terms of taxing under the regulations of the income tax act as an operating lease agreement, then in order to determine a proper value of tax deductible expenses the following rules are applied: Depreciation write-offs made by the user are not tax deductible expenses for tax purposes. Tax deductible expenses are solely the lease payments specified in the agreement, recognised as cost for the period they refer to.

Operating lease
Lease payments under operational lease are recognised on straight-line basis over lease term unless another systematic basis is more representative of the time pattern in which use benefit is derived by the Group.

Goodwill
Goodwill is assigned to the cash-generating units (unit groups) as at the day of business combination.
Goodwill as of the merger day is evaluated according to the purchase price which is a surplus of the merger's cost over the part of the acquiring unit in fair value of identifiable assets, liabilities and contingent liabilities as of the merger's day (all significant days of transfer in case of acquisition resulting from several successive transactions).

Goodwill so measured, pursuant to IFRS 3 before amendment, is reduced by impairment losses and amounts from cession of shares, to which it was previously assigned. Impairment losses up to a value assigned to a cash-generating unit (unit group) are not subject to reversal.

Goodwill is subject to tests for depreciation before the end of an reporting period in which the merger occurred, and later during each following annual reporting period. If there are reasons implying depreciation, the depreciation test is carried out before the end of each reporting period, in which such reasons occurred.

Shares in subsidiaries
The Group solely owns shares in Polish subsidiaries.
Shares in subsidiaries are measured at cost less impairment losses.

Cost includes the amount due to the selling party less deductible VAT, as well as costs directly related to the purchase and necessary to bring the asset to working condition for its intended use or public offering.
In case of goodwill loss revaluation write-offs are assigned to finance operating costs. If the reason for the revaluation write-offs ceases to exist, the initial value of the investment is reinstated by including the reversed amount in operating revenues. Goodwill reinstatement may be entire or partial.

Long-term accruals and deferred income *presented* in the financial report include:
- deferred income tax assets whose value is remeasured as at each balance sheet date
- prepaid expenses related to prepaid lease rent.

inventories
Inventories are valued at cost not higher that their net selling price as at the balance sheet date.
Inventories include:
- trading commodities,
- materials (fabrics and sewing accessories) purchased and issued for processing to external contractors,
- IT consumables related to operation, maintenance and development of a computer network,
- advertising materials.

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

imported goods – at costs, including purchase prices, costs of transport abroad and cost of transport in Poland up to the first unloading point in Poland, as well as customs duties; currency rate specified in customs documents is used for the conversion of amounts expressed in foreign currency,

goods purchased in Poland – at cost; purchase-related costs are charged directly into costs of ordinary operations when they are incurred, as they represent an immaterial amount.

Trading commodities issued from Reserved, Cropp, Esotiq and Henderson collections are measured at weighed average prices, and commencing from 1 July the same method is applied to House and Mohito commodities.
For trading commodities from other collections the FIFO method is employed.

Trading commodities in bonded warehouses are measured at cost, including their purchase price and costs off transport abroad and cost of transport in Poland up to the first unloading point in Poland.

The value of goods issued from bonded warehouses (moved to local warehouses or sold directly abroad) is measured based on detailed identification of goods against separate lots accepted at bonded warehouses.

Trading goods in transit are measured at cost (purchase price) plus costs of transport abroad and in Poland determined as at the balance sheet date. For measurement of the parent company's imported goods in transit, selling exchange rate published by Raiffeisen Bank Polska S.A. as at the balance sheet date is adopted.

Trading commodities whose trading and useful value is impaired are written down and charged to remaining operating costs.

Receivables
Trade receivables are recognised and disclosed at amounts initially invoiced, including write-downs on irrecoverable receivables and doubtful receivables.
Taking into account relatively short payment terms (under 120 days), the above rule does not result in any material changes in measurement of receivables vs. the measurement method set out in IAS 39 based on discounting of these receivables.
Write-offs on receivables are made based on the type of receivables:
- claimed receivables (amounts claimed in court and amounts due from debtors in the process of liquidation or filing for bankruptcy) – write-offs in the total amount receivable,
- other receivables – write-downs are made based on a case-by-case analysis and assessment of the situation and risk of potential loss.

Loans
The Group grants loans in foreign and domestic currency or indexed loans. Initially loans are measured as at the day of transaction in fair value i.e. the value of the paid out amount of currency calculated at sale exchange rate determined by the bank used by the unit.
Receivables from a granted loan are measured as at the balance sheet day based on the effective interest method.
Exchange rate differences concerning loans in foreign currencies arising on the day of measurement are classified as positive or negative exchange rate differences.
respectively.
The Capital Group analyses individual loans on each balance day in order to properly classify them as short-term or long-term loans.

Cash*andcash equivalents*
Cash and cash equivalents include:
- cash in hand and cash in banks
- other cash, including third-party cheques, third-party promissory notes, traveller's cheques, as well as third-party bonds, deposits, etc., if payable (mature) within 3 months from the date of their issue (acquisition, deposition),
- other cash assets, including interest on short- and long-term financial assets, i.e. deposits, bonds, Treasury
  note, etc.)

Core capital
Core capital is disclosed in the amount specified in the Articles of Association and entered in the court register. In the consolidated report the value of core capital is
identical to the core capital of the parent company.

Treasury shares
Measurement of own own shares is conducted at cost, i.e. the purchase price for own shares is increased by the costs accompanying the purchase. These may include
different types of fees and bank commissions.
Own shares are presented in the balance sheet as a separate item of liabilities under 'Own shares' as a negative value.

Share premiumreserve
It is a premium due to issue of shares at the price in excess of their nominal value less costs of issue,

Other reserves
Remaining capital include disclosed capital, reserve capital, capital from merger settlement, and the capital component of convertible bonds.

The amount of reserve capital includes:
- profits from previous years, based on decisions of General Meetings of Shareholders
- amounts of share-based payments made in respect of certain persons under the incentive scheme.

Capital from merger settlement resulting from goodwill revaluation after the acquisition of the Artman SA company.

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

accounting principles. In 2009 the Capital Group disclosed an error of PLN 529 thousand. It resulted from changes in subsidiaries to be consolidated. Due to its insubstantial amount the Capital Group does not present the third reporting period.

Bank credits and *loans*
Bank credits are initially presented in fair value of obtained receipts less transaction costs. Subsequently, they are measured at amortised cost on the basis of effective interest rate. When recognising the amortised cost the cost of loan or credit is considered as well as discounts or bonuses received at liability settlement. Profits and losses are recognised in the profit and loss account after the liability is removed from the balance sheet and as a result of write-off calculation.

Debt securities
Debt securities are understood as convertible bonds issued by the Company.
Convertible bonds are initially recognised at their issue as recognition of a liability component as well as a capital component less cost. The first is a liability whereas the second is recorded as a component of the remaining capitals.
Convertible bonds are measured as at the balance sheet day and their initial value is adjusted by the calculated interest. Interest is measured as at the balance sheet day based on the effective interest rate.

Liabilities
Trade payables with maturity date usually from 30 to 90 days are recognised and disclosed at amounts initially invoiced.
Taking into account relatively short payment terms (under 120 days), the above rule does not result in any material changes in measurement of payables vs. the measurement method set out in IAS 39 based on discounting of these payables.
The Company adopted amortised cost as the method of measuring financial payables.

Provisions
Provisions are made for deferred income tax and employee benefits as well as other provisions.
Provisions for employee benefits include:

- provision for holiday leaves not taken

- provision for future retirement benefits.
- provision for unpaid remuneration.

Provision for future retirement benefits is measured independently by the company, based on a method taking into account the length of service, sex, and the current amount of remuneration. It was assumed that the discount related to provision for retirement benefits is equal to the expected salary growth rate.
There were no actuarial gains or losses in the reporting period.

Revenues
Revenues are recognised in the amount of probable, reliably estimated economic benefits related to the transaction.
Revenues from sales of goods are recognised if significant risk and benefits arising from the ownership title to these goods are taken over by the buyer.
Given the complaints and returns from customers, revenues from sales of goods are adjusted based on adjustment of the estimated cost of these returns. Based on historical data, the ratio of product return againsrt sales volume is estimated. When making these calculations it was assumed that returns of products purchased in one quarter occur in the following quarter. The value of this ratio (against the entity’s prime costs and revenues) is defined every quarter.

Revenues from interest are recognised successively as they accrue up to the net carrying amount of the financial asset.

Transactions in foreign currencies
Functional currency as well as presentation currency in the LPP Capital Group is the Polish zloty (PLN).

As at the transaction date, assets and liabilities expressed in foreign currencies are carried in functional currency at the following exchange rates, respectively:

- Purchase or selling rate used by the Company's bank – in the case of purchase or sale of foreign currencies and repayment of receivables or payables (applicable to accounts in PLN),
- Purchase rate used by the Company's bank - in case of receipts of foreign currency to a currency account,
- Determined by FIFO method - in case of foreign currency expenses from a currency account,
- Average rate determined for a given currency by the National Bank of Poland on the last workday preceding the day of issuing a foreign or domestic invoice - in cases other than import or export (transit) of goods.
- Based on a customs document issued in relation to depositing goods at a cutoms warehouse - in case of goods and liabilities account on depositing the goods at a cutoms warehouse
- Sale rate applied by the Company's as at the balance day - in case of measurement of goods in transit and related import liabilities, in case when no goods were deposited a a cutoms warehouse as at the balance sheet day.

The following items expressed in foreign currencies are measured as at the balance sheet date:
- monetary items:
    - elements of assets – at the Company's bank purchase rate adopted as at this date,
    - elements of liabilities – at the Company's bank selling rate adopted as at this date.
- non-monetary items – at the historical exchange rate as at the transaction date.

Subsidies
State subsidies are recognised in books so as to subsidy income was recognised as commensurate to its costs.

The Capital Group adopted appropriate methods of presentation of subsidies in its financial statement.

- grants for assets – initially as a separate item in Deferred receipts and subsequently systematically presented as income over the usable life of an asset;
- income grants – as item Other operation/financial receipts

Earnings Per Share
Earnings per share for each period is calculated by dividing net profit for the period by weighted average number of shares of LPP SA Capital Group company in this period. The Group does not present diluted earnings/loss per share as ordinary shares are not significantly diluted.

Share-based remuneration payment
Pursuant to a resolution of the General Meeting of Shareholders of 29 June 2007, the Company introduces a motivation scheme enabling the employees and collaborators to take up shares which are to be issued as part of target capital. The scheme will be implemented between the years 2007 and 2010 and will cover at most 15,000 of LPP S.A. shares.

The basic condition of the scheme implementation in the given years is achieving by the LPP SA Capital Group a profit exceeding the previous year's profit by respectively:

a) 70% for 2007 profit (i.e. net profit must be at least 70% higher than net profit achieved in 2006). This condition was fulfilled in 2007.
b) 10% for the profit in the following years.

Approximately 100 persons may participate in the scheme who will declare that they resign from additional remuneration (reward) which they might acquire in connection with positive assessment of their work by the Management Board. The number of shares which may be taken up by individual persons, however, will be calculated as 120% of the gross due reward divided by the LPP SA quoted share price form the Stock Exchange as at thy day preceding the relevant resolution of the Management Board (Supervisory Board in case of members of the Management Board) The shares will be taken up by the scheme participants at nominal price i.e. PLN 2.

Determination of the reward value in case of the Management Board members is in accordance with a relevant Supervisory Board resolution. The criterion for determination of its amount is the value of net profit generated by LPP SA Capital Group and under no circumstances may it exceed twenty times the gross monthly remuneration for each person being a member of LPP SA Management Board.

Hyperinflation

Under provisions of IAS 29 Financial Reporting in Hyperinflationary Economies, entities running their business in a hyperinflationary economy should restate individual items of their share capital by applying a general price index. Results of this restatement should be disclosed as negative amounts under "retained earnings" in the balance sheet. This restatement is made to reflect the impact of hyperinflation on the entity's financial result in the respective reporting period. In Poland, the period 1989 – 1996 is considered a period of hyperinflationary economy. However, the Management Board is in doubt whether disclosure if this hyperinflationary restatement in the balance sheet as an accumulated loss brought forward from previous is justified, taking into account that it refers to events which occurred before 1996, and the corresponding earnings had been distributed before this financial statement was drawn up. In addition, it is not clear whether such disclosure of the hyperinflationary restatement has any effects under provisions of the Code of Commercial Companies, as regards e.g. the amount of dividend to be paid out, amount of payments on account of dividends, or conditions which require adoption of a resolution on the entity’s remaining a going concern. Therefore, the Management Board is of the opinion that direct disclosure of this restatement in the balance sheet drawn up as at 31 December 2008 could be misleading for users of this financial statement, and decided to present relevant amounts, ratios, and conversion methods related to the hyperinflationary restatement in Note 13.11 to the financial statement.

Financial statements of LPP Capital Group are prepared based on the historical cost method.

Cash flow statement

For the purposes of the cash flow statement, the Group classified the following items as cash:

- cash in hand, cash in banks, and cash in transit,
- other cash, including third-party cheques, third-party promissory notes, traveller's cheques, as well as third-party bonds, deposits, etc., if payable (mature) within 3 months from the date of their issue (acquisition, deposition),
- other cash assets, including interest on short- and long-term financial assets, i.e. deposits, bonds, Treasury notes,
  etc.) payable as at the balance sheet day.

Segments

The scope of financial information in segment activity reporting within the
Group is determined based on IFRS 8 requirements.
A division into geographical segments has been adopted by the Group as the main reporting arrangement, which is due to its business activity in different geographical areas.
Two segments were specified:

- business within the European Union.
- business in other countries

Division into geographical segments was based on the criterion of location of the Group's assets.

Assets (liabilities) of a segment are operating assets (liabilities) used by a segment in operations, which are directly attributable to a given segment or on the basis of unbiased assumption may be attributed to this segment.

The result of a segment is determined at the level of the operating profit.
The receipts, profit and loss, assets and liabilities are determined before transactions between segments are exempted, after elimination within a segment.

10. Financial risk management

The main instruments of the LPP Capital Group are bank credits and convertible shares issued in the current year (Note 13.16 and 13.17) Their main objective is acquisition of business funding for the Capital Group. The Group has at its disposal other financial instruments which arise in the process of its activities. Those mainly include cash and deposits (Note 13.10), trade and services receivables and liabilities (Note 13.6 and 13.18).
AS per IFRS risk analysis was conducted in the scope of risks related to financial instruments, which the Capital Group is exposed to.
a) credit risk
The maximum credit risk is reflected by the carrying amount of trade receivables.

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

Customer	share of receivables (%) in total amount of receivables
Customer 1	25.63%
Others, whose receivables do not exceed 5% of the total amount of receivables.	74.37%
Total net trade receivables	100.0%

Classification of gross trade receivables according to the length of the overdue period as at 31.12.2009 and 31.12.2008 are presented in the table below:

in PLN '000	2009	2008
Not overdue	41,244	40,542
Overdue up to one year	41,244	31,106
Overdue for over one year	5,214	3,822
Total	**87,702**	**75,70**

Receivables overdue for over one year and up to one year were partly included in receivables revaluation write-offs.
No hedging instruments for the above financial risks and no hedge accounting are used by the LPP SA Capital Group.

b) liquidity risk
The objective of the Group is to maintain a balance between continuity and flexibility of funding through the use of such funding sources as bank credits in the current account or investment bank credits. A new method of funding was issue of convertible bonds. Thanks to this instrument short-term funding with bank credits was replaced by medium-term funding that

significantly reduces potential difficulties arising from toughened bank requirements.Compared to the previous year credit commitments were significantly reduced. A detailed description of the Company's financial situation in terms of taken credits is presented in Note 13.16. A reduction of credit debt was due to, apart from the above mentioned bonds, a reduction in inventories (release of funds involved).
As part of liquidity risk goods and services liabilities must also be indicated.

Classification of gross trade liabilities by overdue period as at 31.12.2009 and 31.12.2008 is presented in the table below:

in PLN '000	2009	2008
Not overdue	160,311	168,888
Overdue up to one year	22,334	20,853
Overdue for over one year	1,125	107
Total	**183,770**	**189,848**

The state of liabilities as compared with the end of 2008 has been slightly reduced. The Group continues its previous assumptions concerning the growth in the business scale and an increase of significance for suppliers.

a) currency risks
The main accounting currency for the majority of goods purchase transactions is USD. A small proportion of the settlements is conducted in EUR.
The majority of receipts from sale is obtained in PLN. Fast weakening of PLN exchange rate to USD influenced reduction of gross sales margin for the year 2009 by 5 per cent points in relation to 2008.
Given the specific type of the Company’s business, it is possible to partially transfer the risk of increase in USD exchange rate to end customers, as the product selling price is calculated just before the product is introduced to the market.
Apart from currency risk related to the accounting currency applied for purchase of trade goods there is also the risk related to trading space leas settled in EUR.

Exchange rate risk *in PLN ‘000*

+/- 5%			
Balance sheet items	***Value***	***Effect on profit loss***	***Effect on profit loss***
Financial assets			
CASH	197,482	-2,139	2,139
trade receivables	87,702	-1,393	1,393
Effect on financial assets before tax		*-3,533*	3,533
Income tax (19%)		671	-671
Effect on financial assets after tax		*-2,862*	*2,862*
Long-term payables			
Short-term payables	183,770	6,419	-6,419
bank credits	303,742	268	-268
Effect on financial expenses before tax		*6,687*	*-6,687*
Income tax (19%)		1,270	-1,270
Effect on Financial expenses after tax		*5,417*	*-5,417*
Total		***2,555***	***-2,555***

* The given values do not include revaluation write-offs made for trade liabilities

As at 31 December 2009 net profit of the Capital Group would have been higher by PLN 2,555 thousand if the Polish zloty had strengthened by 5% against foreign currencies (mainly USD), and the remaining factors did not change. It is due to a greater effect of the effect liabilities measurement, expressed in foreign currency over foreign receivables. Weakening of the Polish zloty by 5% against foreign currencies as at 31 December 2009 would have the same effect in terms of quantity but the opposite effect in terms of the sign.

d) interest rate risks

Interest rate risks are related to long-term interest loans based on floating value of WIBOR index used by the Capital Group on a regular basis, as well as loans granted by the Group (on a smaller scale). Bank credits with floating interest rate create cash flow risk. The Management Board believes that interest rate changes will have no significant impact on the Capital Group's results.

Analysis of the impact of interest rate changes and foreign exchange rate changes on profit and loss account and equity is presented in the table below. The analysis relates to the financial components of the balance as at the balance sheet day.

Interest rate risks *in PLN '000*

+/- 75 pb SP			
Balance sheet items	***Value***	***Effect on profit/loss***	***Effect on profit/loss***
Financial assets			
CASH	54,323	407	-407
DEPOSITS	143,159	1,074	-1,074
loans granted	644	5	-5
Effect on financial assets before tax		*1,486*	-1,486
Income tax (19%)		-282	282
Effect on financial assets after tax		*1,204*	*-1,204*
Financial liabilities			
bank credits	303,742	-2,278	2278
Convertible bonds	115,514	-866	866
Effect on financial liabilities before tax		*-3,144*	*3,144*
Income tax (19%)		597	-597
Effect on financial liabilities *after tax*		-2,547	*2,547*
Total		***-1343***	***1343***

As at 31 December 2009 net profit of the Group would have been lower by PLN 1,343 thousand. if the interest rates in PLN, EUR and USD had been higher by 75 basis points, assuming that the remaining parameters remain unchanged. Such result is due to a higher balance of credits compared with cash and granted loans.

11. Critical accounting estimates and judgements

Estimates determining amounts disclosed in the financial statement refer to:

- estimated economic useful life of property, plant and equipment,

- residual value of property, plant and equipment as well as intangible assets.
- percentage of returns of goods sold within the reporting period made in the next reporting period.
- assets revaluation write-downs,
- discount rate for the estimated increase in salaries and actuarial assumptions used to calculate the amount of provisions for retirement benefits,
- future tax results taken into account when calculating deferred income tax assets,
- assumptions adopted to test trademark and goodwill impairment

The methodology employed is based on the best knowledge of the Management Board and in line with requirements of IFRS.
Methods of determination of estimated amounts are applied consistently in relation to the previous reporting period.

The following estimated amounts remained the same as in the previous period:

- discount rate for the estimated increase in salaries and actuarial assumptions used to calculate the amount of provisions for retirement benefits,
- future tax results taken into account when calculating deferred income tax assets.

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

- estimated economic useful life of property, plant and equipment – applicable only to new facilities (determination of a new depreciation period after medernisation and upon signing an appendix extending the lease),
- sales adjustment ratio related to returns of goods made in the next reporting period.

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

12. Principles of consolidation

The consolidated financial statement of the Capital Group has been drawn up based on financial statements of all material subsidiaries employing the same methods of measurement and principles of financial statement preparation as the parent company.
The consolidated financial statement of the Capital Group includes relevant data from the statement of the parent company and statements of foreign subsidiaries 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 at the average exchange rate published by the National Bank of Poland for this particular currency as at the balance sheet date;
- individual items in the profit and loss account are converted at the exchange rate calculated as an arithmetic average of average exchange rates published by the National Bank of Poland for this particular currency as at the last day of each month during the fiscal year;
- individual items in the cash flow statement are converted at the exchange rate calculated as an arithmetic average of average exchange rates published by the National Bank of Poland for this particular currency as at the last day of each month during the fiscal year;
- shareholders' equity is converted as at the date when the control was taken over by the parent company, at the average exchange rate published by the National Bank of Poland as at that date.

Equity includes the following separate items:

- core capital,
- other equity;
- profit (loss) from previous years;
- net financial result
- foreign exchange differences, including in particular foreign exchange differences resulting from different methods of conversion of net financial result and balance sheet.

The method of full consolidation was adopted.
The following adjustments and non-consolidation were recognised:

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

Marek Piechocki

President of the Management Board

Dariusz Pachla	*Hubert Komorowski*	*Piotr Dyka*	*Jacek Kujawa*
Vice-President of the Management Board	Vice-President of the Management Board	Vice-President of the Management Board	Vice-President of the Management Board

Gdańsk, 15 April 2010

13. NOTES TO THE FINANCIAL STATEMENT

13.1 Tangible fixed assets (PP&E)

Property, plant and equipment is depreciated on a straight-line basis based on the following depreciation rates:

- buildings, facilities and civil- and hydro-engineering structures 2.5 to 50%:
- plant and machinery between 5 and 60%
- transport vehicles between 10 and 33%,
- other tangible fixed assets between 14 and 50%.

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

Over the reporting period reversal of revaluation write-offs of tangible assets ocurred for an amount PLN 3,062 thousand.

Apart form their own fixed assets the Gruoup also uses other PP&E subject to lease agreements, whose net value in the balance sheet equals PLN 508 thousand. As per IAS 17 it is soleley finance lease and it solely applies to transport vehicles.

All required disclosures relating to finance lease are presented in the table below:

in PLN

Item	As at 31.12.2009r.	
	Minimum fees	Current value of fees
Within a period of 1 year	266	251
Within a period from 1 to 5 years	67	66
Over 5 years	0	0
Total minimum lease payments	33	0
Future Financial benefits	-16	0
Current value of minimum fees lease	317	317

Contingent lease payments as an expense during the financial period amounted to PLN 10 000.
In the company, there were no irreversible sub-leasing contracts as of 31 December 2009. The basis for calculation of lease payments is the interest rate, which corresponds to one-month's WIBOR index, valid from the first day of interests' period with a fixed rate and is subject to change.
Sub-leasing contracts have no additional restrictions.

Compensations related to tangible fixed assets, received by the Group in 2009, amounted to PLN 315.000 and resulted mainly from vehicle-related damage.
The group has temporarily unused tangible fixed assets with the initial value of PLN 133.000 and uses tangible fixed assets which are fully depreciated. Their initial value is PLN 56.434,000.

As of the balance sheet date, the Group experienced a limitation of power in disposing of the fixed property in Pruszcz Gdański, where the new logistics centre is being built, of fixed properties in Cracow and fixed assets from the group 8.

As of 31 December 2009, the value of contractual liability for purchase tangible fixed assets was PLN 2400,00.
As of balance sheet date, there were no fixed assets designed for sale or operation was discontinued in the Group.

The Group has no information on the fair value of tangible assets used and does not disclose data concerning the subject.

CHANGES OF TANGIBLE ASSETS (according to) w okresie od 01-01-2009 do 31-12-2009 buildings

in PLN (000),

	land	premises, land engineering buildings and	technical equipment and machines	means of transport	other tangible assets	fixed assets in progress	Fixed assets, total
1) gross value of fixed assets at the beginning of performance period	19 174	440 702	103 174	11 236	74 623	16 289	665 198
- foreign exchange differences		-4 366	-954	-36	-1 739	-178	-7 273
- increase		44 300	14 839	174	12 042	72 728	144 083
- increase due to the merger of the company with Artman		10 669	7 864	1 509	7 892		27 934
- decrease		10 396	6 380	896	1 906	64 938	84 516
2) gross value of fixed assets at the end of performance period	19 174	480 909	118 543	11 987	90 912	23 901	745 426
3) accumulated depreciation (amortization) at the beginning of the performance period	0	113 666	46 529	2 597	26 561	0	189 353
- depreciation	0	51 992	20 570	1 778	16 814	0	91 154
- foreign exchange differences		- 2 034	- 1 143	-29	-603		-3 809
-increase		11 144	8 395	1 549	7 888		28 976
- decrease	0	5 319	4 935	722	1 565	0	12 541
4) accumulated depreciation (amortization) at the end of the performance period	0	169 449	69 416	5 173	49 095	0	293 133
5) impairment write-offs at the beginning of the performance period	0	6 204	363	0	201	0	6 768
- increase	0	5 555	915	0		0	6 470
- decrease	0	2 696	323	0	43	0	3 062
6) impairment write-offs at the end of the performance period	0	9 063	955	0	158	0	10 176
Total net value of fixed assets at the end of the performance period	19 174	302 397	48 172	6,814	41,659	23,901	442,117

CHANGES IN FIXED ASSETS (by type) in the period from 01 January 2008 to 31 December 2008 in PLN (000)

	land	buildings, premises, objects of land engineering and water	technical equipment and machines	means of transport	other fixed assets	fixed assets in progress	Fixed assets, total
1) gross value of fixed assets at the beginning of the performance period	12 283	212 256	60 691	6 560	45 089	47 715	384 594
- foreign exchange differences		4 985	2 236	-92	415	100	7 644
- increase	4 455	187 989	37 497	5 065	24 237	188 984	448 227
-increase due to the merger of the company with Artman	2 436	39 137	4 735	1 941	6 489	34	54 772
- decrease		3 665	1 985	2 238	1 607	220 544	230 039
2) gross value of fixed assets at the end of the performance period	19 174	440 702	103 174	11 236	74 623	16 289	665 198
3) accumulated depreciation (amortization) at the beginning of the performance period	0	78 250	32 515	2 924	16 293	0	129 982
- depreciation	0	35 801	14 259	1 257	10 909	0	62 226
- foreign exchange differences		2 791	1 548	-107	464		4 696
- decrease	0	3 176	1 793	1 477	1 105	0	7 551
4) accumulated depreciation (amortization) at the end of the performance period	0	113 666	46 529	2 597	26 561	0	189 353
5) impairment write-offs at the beginning of the performance period	0	1 273	0	0	0	0	1 273
- increase	0	4 931	363	0	201	0	5 495
- decrease	0		0	0	0	0	0
6) impairment write-offs at the end of the performance period	0	6 204	363	0	201	0	6 768
Total fixed assets' net value at the end of the performance period	19 174	320 832	56 282	8 639	47 861	16 289	469 077

Impairment write-offs - items in the Profit and Loss account - 2009.	amount
- increase – 'Revaluation of non-financial assets'	6 470
- reversal – 'Other operating revenues'	2 292

Impairment write-offs - items in Profit and Loss account - 2008.	amount
- increase – 'Revaluation of non-financial assets'	5 495
- reversal – 'Other operating revenues'	

13.2 Intangible assets

As of the balance sheet date, there was an intangible asset with unspecified useful life in the form of House trademark.
After analysis, it has been found that there is no time limit in which it is expected that the asset will not generate income.
Carrying value of shown trademark as of 31 December 2009 was PLN 77 508.

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

- acquired concessions, patents, licences and similar rights and a trademark 1.7-50%.

The Group reviews its intangible assets for potential impairment on an annual basis. No impairment of intangible assets was identified in 2009 or in the period that was compared.

According to assets impairment (MSR 36) and accountancy policy as of 31 December 2009, a test concerning impairment for House's trademark of balance sheet value 77 508 was conducted.

The recoverable amount of cash-generating units to which a value was assigned, was determined on the basis of their value in use, using the method of licensing fees.

Detailed estimates' assumptions are as follows:

Trademark House - valued on the basis of licensing fee method (royalty relief method), based on the determination of the charges that should have been incurred by the outside company for the privilege of using the brand. This fee is usually determined as a percentage of revenue:

- estimate is based on sales generated by the House trademark's clothes - it was PLN 309.3 million in 2009 and was higher by 4.8% than the turnover for 12 months (November 2007-October 2008) adopted for the initial valuation .
- The license fee at the rate of 3% of turnover was adopted.
- The capitalization rate adopted for valuation with the CAPM method(forecast period is not defined here because it uses the model of a lifetime pension) amounted to 8.14% and consisted of several elements:

- risk-free rate - 3.892% equals profitability of 52-week treasury bills
- annual inflation rate - 2.50%
- risk premium - 7.5%

These assumptions are based on current profitability parameters of 52-week treasury bills as of the balance sheet date and published, expected inflation rate and are included in the valuation carried out according with the model drawn up by an expert who determined the value of House's trade mark. At first this value was included in the balance sheet (they are therefore consistent with external sources of information)

As a result of the tests it has been established that the trademark's value exceeds the carrying value of intangible assets as of the balance sheet date and therefore there is no need to make any impairment charges.

The Group draws up its profit and loss account in the function format. As a result, amortisation of intangible assets is recognised under the following items:

- costs of sales in the amount of PLN 409 000,
- general administrative expenses in the amount of PLN 4 568.

An important item among intangible assets is the computer software Retek, used as a sales support and goods management tool, compatible with the FK software.
Carrying value of this software as of 31 December 2008 was PLN 3 410. It is predicted that its useful life is 17 months as of the balance sheet date.

As at 31 December 2009, the Group was under no contractual obligation to acquire any intangible assets. There were also no outlays on R&D works.

Group uses a fully depreciated intangible assets, whose initial value is PLN 7 047.

Changes in intangible assets in the period from 01-01-2009 to 31-12-2009

in PLN (000).

total	costs of completed development works	acquired concessions, patents, licenses and similar rights, including:	computer software	intangible assets in progress	total
a)gross value of intangible assets at the beginning of the performance period	443	30 861	29 779	385	31 689
- foreign exchange		-14	-14	0	-14
- increase	-	3 515	1 193	909	4 424
- decrease		212		708	920
b) gross value of intangible assets at the end of the performance	443	34 150	30 958	586	35 179
c) accumulated depreciation (amortization) at the beginning of the performance	443	17 282	16 691	-	17 725
- foreign exchange	0	-198	-198		-198
- planned amortisation write-offs	0	4 977	3 340	-	4 977
- decrease	0	88	0		88
d) accumulated depreciation (amortisation) at the end of the	443	21 973	19 833	-	22 416
Total net value of intangible assets at the end of the performance	0	12 177	11 125	586	12 763

Changes in intangible assets in the period from 01-01-2008 to 31-12-2008

in PLN (000).

	costs completed development works	acquired concessions, patents, licenses and similar rights, including: total	computer software	intangible assets in progress	total
a)gross value of intangible assets at the beginning of the performance period	443	25 086	23 610	318	25 847
- foreign exchange		67	493	0	67
- increase	-	6 160	6 128	5 522	11 682
- decrease		452	452	5 455	5 907
b) gross value of intangible assets at the end of the performance period	443	30 861	29 779	385	31 689
c) accumulated depreciation (amortization) at the beginning of the performance period	443	13 540	13 111	-	13 983
- foreign exchange	0	43	141		43
- planned amortisation write-offs	0	4 134	3 874	-	4 134
- foreign exchange	0	17	17		17
- decrease	0	452	452		452
d) accumulated depreciation (amortisation) at the end of the performance	443	17 282	16 691	-	17 725
Total net value of intangible assets at the end of the performance period	0	13 579	13 088	385	13 964

As of the balance sheet date, there were restrictions as far as the use of Re, Cropp and House trademarks are concerned.

13.3. Goodwill

On the 30th October 2008, LPP S.A. became the owner of the share of Artman SA stock which guarantees 99.554% of total share of equity and 99.696% of votes casted at AGM.

According to the regulations of IFRS 3, the cost of the merger was PLN 338 73, including:
-money given in exchange for shares purchased from shareholders in the amount of 394 363;
- additional costs directly related to carrying out transactions, such as legal advice, tax audits, travel expenses,
-shares issued by LPP S.A. for main shareholders of Artman S.A.

On the day of merger of two companies, Artman GK showed the following assets and liabilities in their books, whose value is consistent with the carrying amount determined in accordance with IFRS 3, which were included to calculate the goodwill:

Assets	in PLN (000).
1. Tangible fixed assets	54 772
2. Intangible assets	397
3. Goodwill	406
4. Deferred income tax assets	1 509
5. Inventories	53 961
6. Receivables	11 507
7. Accruals	597
8. Investments	159
9. Cash and cash equivalents	7 727
Total assets	**131 035**

Liabilities in PLN (000).

1. Bank credits and loans	16 873
2. Other financial liabilities	1 247
3. Provisions	2 788
4. Provision for deferred income tax	1 801
5. Liabilities	29 838
6. Accruals	107
Total liabilities	**52 654**

Goodwill has been priced pursuant to provisions of IFRS 3, according to its purchase price which is a surplus of the merger's cost over this part of fair value of assets acquired and liabilities of subsidiary, which is attributable to the group parent share in the subsidiary.

The valuation of all existing assets was performed on the day of Artman's S.A. acquisition. The Group assessed intangible asset in the form of a trademark according with IAS 38 and included it in the separate item of the balance sheet.

Goodwill was calculated and included in the GK financial statement. It corresponds to assets which cannot be separately identified and recognized, however one expects specific benefits resulting from their possession.

As of the balance sheet date, after the acquisition of GK Artman, the goodwill was PLN 183 203. Simultaneously, because of the mentioned acquisition, the Group took over already existing value of Artman GK, resulting from the purchase of 100% of shares in UAB House Plius in the amount of PLN 406 000.

According to IAS 36 and accountancy policy as of 31 December 2009, a test concerning Artman's impairment of balance sheet value PLN 183 203 was conducted.

The recoverable amount of cash-generating units to which a value was assigned, was determined on the basis of their value in use, using the method of discounted cash flow DCF.

Detailed estimates' assumptions are as follows:

Artman's goodwill – determined on the basis of DCF method for cash flows generated by House retail shops acquired from Artman in 2008 (through the acquisition of Artman's shares). Pricing was based on the following assumptions:

- period including estimated cash flows for 15 years (2010-2024), without taking into account the residual value,
- quarterly forecast of revenues and expenses included in the forecast for 2010 and annual revenues and expenses forecasts in 2011 and subsequent years
- forecast revenue and expenses for retail shops acquired together with ARTMAN company and still active (62 own retail shops and 67 franchise retail shops)
- annual sales in tested retail shops - about 3% higher in 2010 compared to 2009 and sales increase of 2% in subsequent years
- operating costs in tested retail shops - about 5% lower in 2010 compared to 2009 and sales increase of 2.5% in subsequent years
- Costs of HOUSE's sales department, HOUSE's goods' production planning department and costs of HOUSE's marketing - increasing from year to year by 2.5% and assigned to tested retail shops by proportion of the quantity of acquired shops (and still active) at the time of merger to all HOUSE's retail shops.
- discount rate within the forecast period is variable and is calculated on the basis of WACC.
  The rate of WACC is 9.4% on average in 2010 and rising to 10.6% in 2014 and then maintain a constant level. WACC variability results from the fact of permanent loan

repayments in the following period: 2010-2014.

Parameters adopted above are consistent with past experience (for the expenses and sales assumptions) and consistent with the information coming from external sources for the remaining numbers.

As a result of the tests it has been established that the goodwill exceeds the carrying value of intangible assets as of the balance sheet date and therefore there is no need to make any impairment charges.

The following table shows changes in the company's goodwill that are subject to a test for impairment:

in PLN (000).

Gross value	31 Dec 2009	31 Dec 2008
Opening balance	183 203	0
Increase		183 203
Decrease		
Closing balance	183 203	183 203

Allowances	31 Dec 2009	31 Dec 2008
Opening balance	0	0
Closing balance	0	0
Net value	31 Dec 2009	31 Dec 2008
Opening balance	0	183 203
Closing balance	183 203	183 203

On 01 July 2009, pursuant to the Art. 492 & 1, item 1 of the Commercial Companies Code, LPP S.A. merged with Artman S.A. This merger was carried out by transfer of all assets of the acquired company, which is Artman S.A. to the acquiring company, which is LPP S.A.
On the day of this merger, LPP S.A. possessed 100% shares of Artman S.A.

13.4. Shares in subsidiaries

The following item in the balance sheet 'Shares in subsidiaries' includes only the shares in domestic companies, which are not included in the consolidation.
Shares's value is PLN 719 000.

Shares balance sheet valuation is made according to purchase prices, reduced by impairment write-downs. Results of an analysis carried out as of the balance sheet date, did not show that there was a must to perform impairment write-downs of assets possessed by the Capital Group.

13.5 Inventories

Trading commodities are the key item of the Capital Group’s inventories. The structure of inventories as of the balance sheet date is presented in the table below:

in PLN (000).

INVENTORIES	31 December 2009	31 December 2008
1) materials	4 102	6 748
2) commodities	318 654	455 896
TOTAL	322 756	462 644

The value of inventories disclosed in the balance sheet was reduced by the amount of valuation allowance. Changes in the amount of valuation allowance in the reporting period and comparative period are presented in the table below:

in PLN (000).

VALUATION ALLOWANCE OF INVENTORIES	31 Dec 2009	31 Dec 2008
Opening balance at the beginning of the performance period	4 510	3 620
Allowances recognized as an expense in the period	1 868	2 371
Allowances reversed in the period	2 150	1 279
Exchange differences	256	- 202
Closing balance at the end of the performance period	4 484	4 510

As of 31 December 2009 the value of inventories recognized as an expense during the reporting period, amounted to PLN 887 991.

13.6 Receivables

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

in PLN (000).

SHORT-TERM RECEIVABLES	31 Dec 2009	31 Dec 2008
1) from related parties	349	41
- trade receivables	10	41
- other	339	
2) from other entities	93 077	100 854
- trade receivables	78 626	75 244
- taxes, subsidies, customs duties, social and health and other benefits	7 013	11 118
- other	7 802	14 492
TOTAL	93 426	100 895

Trade receivables include mainly receivables related to sale of clothing.
In the normal course of sale, receivables are settled within three months from the date of sale.
The total amount of short-term receivables presented above is the net amount, i.e. includes revaluation write-down of PLN 12 603.

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

in PLN (000).

VALUATION ALLOWANCES OF ACCOUNTS RECEIVABLE	31 Dec 2008	31 Dec2009
Opening balance at the beginning of the reporting period	11 605	5 106
Allowances recognized as an expense in the period	6 259	8 289
Allowances reversed in the period	5 338	1 895
Exchange differences	77	105
Closing balance at the end of the reporting period	12 603	11 605

13.7 Loans

The value of loans in the financial statements amounting to PLN 644 000 applies only to employees' domestic loans.
Presented amount is shown as a long-term and short-term part.
Agreements are concluded for 3 years maximum. Principal amounts are repaid in monthly instalments, and interests (APR 7% per annum) shall be due at the time of the repayment of the last instalment.
They are valued according to the corrected purchase price and checked at each balance sheet date whether there was any impairment of their value.

Results of an analysis carried out as of the balance sheet date, did not show that there was a must to perform impairment write-downs of loans taken by LPP Capital Group.

13.8. Financial instruments

For the purpose of valuation of assets and liabilities, as of the balance sheet date, pursuant to categories of financial instruments specified in paragraph 9 of IAS 39, the Group shows the following items:

- loans and receivables in the carrying amount of PLN 94 718.
- liabilities measured in amortized cost in the balance sheet value PLN 665 409 000

In accordance with this division, all occurring assets and financial liabilities are measured in amortized cost.
Receivables and trade payables are valued on the balance sheet date in the discounted value, in accordance with the method of amortized cost using the effective interest rate. According to accepted accountancy policy, due to irrelevant price difference, trade receivables and payables which due date does not exceed 120 days, are valued at amounts initially invoiced, including valuation allowances.
Standard terms of payment for clients are 60 days.
Assets and liabilities classified as 'other' are priced at fair value as of the balance sheet date.

GK does not have financial assets being a security on accounts payable or contingent liabilities. Security over the company has not been established as well.
In the reporting period, in the case of loans, there was no situation in which the company defaulted on payments or conditions of the contracts.

In the profit and loss account, under financial revenues, the company shows interests value, calculated using method of effective interest rate in the amount of PLN 1004, simultaneously relating to financial assets which have not been valued at fair value by financial result.
Interests calculated using the above methods related to financial liabilities which have not been calculated at fair value through profit or loss, are shown in the financial costs due to interests in the amount of 27 160.

Changes in depreciation for each category of financial assets are shown in individual notes:

- concerning loans granted - note 13.7
- concerning receivables - note 13.6

GK does not apply hedge accounting.
In the Group's assessment, carrying value of financial assets and financial liabilities is close to fair value.

The fair values and carrying values and comparable data of individual financial instruments as of the balance sheet date are presented in the following table.

2009 in PLN (000).

Assets	Fair value	Carrying amount
Trade receivables	78 271	78 271
CASH	197 482	197 482
Total	275 753	275 753

Liabilities	Fair value	Carrying amount
Credits	303 742	303 742
Bonds	120 979	120 979
Trade payables	183 770	183 770
Total	608 491	608 491

* Due to lack of possibility of reliable pricing, the table does not include unquoted equity instruments valued at purchase price and value of loans priced with amortized cost method for which there is lack of an active market.

2008 in PLN (000).

Assets	Fair Value	Carrying amount
Trade receivables	75 285	75 285
CASH	89 831	89 831
Total	165 116	165 116
Liabilities	**Fair value**	**Carrying amount**
Credits	553 063	553 063
Trade payables	189 848	189 848
Total	742 911	742 911

13.9 Accruals

Value of short-term accruals as of 31 December 2009 was PLN 7 405. Components of this amount have been presented in the table below.

in PLN (000).

Accruals	31 Dec 2009	31 Dec2008
Rent for the lease of retail premises, to be settled over the period of 12 months from the balance sheet date.	5 301	3 214
Cost of insurance and customs guarantee	1 304	875
Software supervision	119	452

Other	681	1 147
TOTAL	7 405	5 688

13.10 Cash

CASH	31 Dec 2009	31 Dec 2008
1) cash in hand and cash at banks	54 323	76 172
2) other cash	143 159	13 659
TOTAL	197 482	89 831

Other cash includes short-term deposits. These deposits are established for a fixed term (from one day up to one month, depending on the needs) and bear interest based on defined interest rates.
The currency structure of cash is presented in the table below.

CASH – CURRENCY STRUCTURE	31 Dec2009	in PLN (000) 31 Dec 2008
in the Polish currency	121 296	32 579
in foreign currencies (according to currency)	76 186	57 252
- USD	11 924	1 280
- RMB	1 114	195
- EUR	2 414	1 336
- LVL	81	133
- EEK	3 376	13 190
- CZK	36 094	50 678
- UAH	4 878	2 319
- LTL	1 295	2 081
- HUF	102 653	134 002
- RUB	170 298	224 392
- BGN	1 051	130
- SKK		7 162
- RON	1 764	3 956
TOTAL (in PLN 000).	197 482	89 831

As at 31 December 2009, the Group had free borrowed funds of PLN 256 973.

In the period from 1 January to 31 December 2009, the Group made non-cash settlements with its clients in the amount of PLN 7 433 (in the form a trade-off of mutual payables and receivables).

13.11 Equity capital

Primary capital
Primary capital of the Group is share capital of the controlling company.
As of 31 December 2009, it is PLN 3 500 554. This capital is divided into 1 750 277 shares with nominal value of PLN 2 each.
In the reporting period that ended on 31 December 2009 there was an increase in share capital

of the company by the amount of PLN 8 420. The increase was done in order to issue stock of series I (4 210 shares of series I which nominal value was PLN 2 each). Stock of series I was issued within target capital in order to accomplish the incentive-discretionary programme.

Before the increase, share capital was PLN 3 492 134, which consisted of 1 746 067 shares corresponding to 3 146 067 votes for AGM.

The table below shows a total number of shares divided into separate issues.

Series/ issu	Type of shares	Type of entitlement	Type of restriction concerning	Number of shares	Series value
A	bearer shares	ordinary shares	none	100	200
B	nominative	privileged shares	none	350 000	700 000
C	bearer shares	ordinary	none	400 000	800 000
D	bearer shares	ordinary shares	none	350 000	700 000
E	bearer shares	ordinary shares	none	56 700	113 400
F	bearer shares	ordinary shares	none	56 700	113 400
G	bearer shares	ordinary shares	none	300 000	600 000
H	bearer shares	ordinary shares	none	190 000	380 000
I	bearer shares	ordinary shares	none	6 777	13 554
J	bearer shares	ordinary shares	none	40 000	80 000
NUMBER OF SHARES, TOTAL				1 750 277	

All issued shares are paid up in full.
In the reporting period, LPP S.A. paid no dividend to its shareholders.
350 000 registered shares held by Marek Piechocki and Jerzy Lubianiec Are preference shares in terms of voting rights at the General Meeting of Shareholders. Each registered share carries 5 votes.
Ownership structure of share capital of LPP S.A. as of 31 December 2009:

Shareholder	Number of shares	Number of votes on the General Meeting	Shares % in the general number of votes at the General Meeting	Share in Equity	Value of the shares
Marek Piechocki	324 390	1 024 390	32.52%	18.53%	648 780
Jerzy Lubianiec	226 338	926 338	29.40%	12.93%	452 676
Grangefont Limited, with head office in London, Great	350 000	350 000	11.11%	20.00%	700 000
Other shareholders	849 549	849 549	26.97%	48.54%	1 699 098
TOTAL	1 750 277	3 150 277	100.00%	100.00%	3 500 554

In the reporting period, LPP S.A. paid no dividend to its shareholders.

Capital from the sales of shares above their nominal value
Value of share capital resulting from the surplus achieved while selling the shares above their

nominal value.

Other reserves

The value of other capital results from the capital reserve, capital of the merger and the settlement of the equity component of convertible bonds.

The amount of individual capital is presented in the following table:

in PLN (000)

TYPE OF CAPITAL	31 Dec 2009	31 Dec 2008
Reserve capital	501 116	328 212
Reserve capital	193	193
Capital from the settlement of the merger	-1 410	-144
Principal part of bonds	12 290	
TOTAL	512 189	328 261

Reserve capital, presented in this part of equity capitals as of 31 December 2009, was created mainly from the net profit from previous years and as an effect of share-based remunerations. Part of the reserve capital created by law pursuant to the Article 396 of the Code of Commercial Companies may be used in the future only to make good the potential loss.

The structure of reserve capital is as follows:

in PLN (000)

TYPE OF RESERVE CAPITAL	31 Dec 2009	31 Dec 2008
created by law from a copy from the profit and loss figure	1 251	1 251
created according with the statute from the copy of the profit	490 506	319 557
created from share-based payments	9 359	7 404
TOTAL	501 116	328 212

Equity capital of the controlling company in the period of hyperinflation

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

1. 18 December 1989 - foundation of the company and the contribution of the share capital (after denomination) PLN 200.
2. 04 May 1995 - acquisition of the company by Marek Piechocki and Jerzy Lubianiec
3. 12 April 1995 - an increase of share capital up to PLN 700 000 was registered.
4. 24 October 1995 - a resolution was adopted concerning an increase of share capital up to PLN 1500 000.
5. 04 January 1996 – a resolution was adopted concerning an increase of share capital up to PLN 2 200 000)

in PLN'000

Years	Opening Balance Capital	Increase	Inflation	Days	Inflation rate	Capital ater conversion in PLN'000
1990	0.2		585.8%	365	6.858	1.4
1991	1.4		70.3%	365	1.703	2.3
1992	2.3		43.0%	365	1.430	3.3
1993	3.3		35.3%	365	1.353	4.5

1994	4.5		32.2%	365	1.322	5.9
01 Jan 1995	5.9		27.8%	365	1.278	7.6
12 Apr 1995		700	27.8%	263	1.200	840
24 Oct 1995		800	27.8%	68	1.052	841
TOTAL 1995						1 689
01 Jan1996	1 916*		19.9%	365	1.199	2 298
04 Jan 1996		1 400**	19.9%	362	1.197	1 676
TOTAL 1996						3 974

* capital as at the end of 1995 + retained result for 1995
** capital increase + share premium

As of 31 December 1996 (excluding profit for the fiscal year) the Company's capital amounted to PLN 3 127 (in thousands). The difference from capital conversion was PLN 847 000.

13.12 Subsidies

In 2009, the company benefited from subsidies in the form of 'de minimis aid' amounting to PLN 303 000. This is a public aid, governed by Community rules, granted for a period of 3 years. The amount of such aid over three years shall not exceed EUR 200 000. LPP SA received aid concerning tax on a property built in Pruszcz.

13.13 Reserves

As of the balance sheet date the Group reserves in the balance sheet liabilities in the total amount of PLN 3 894 000.
Pension pr ovision
This provision is created only by the controlling company. In other subsidiaries excluding Slovakia, gratuities are not paid. LPP S.A. determines the amount of this provision individually, based on actuarial methods.

Provision for holiday compensations.
The Group also creates provision for holiday compensation, i.e. future payment of amounts due to employees for their on-going work.

Provision for non-paid remuneration.
This provision is created only by the controlling company for the future remunerations paid in connection with created incentive programme.

Provision for liabilities
Provision for future liabilities is also being created, some of which are likely to be covered.

in PLN (000).

	Pension and similar benefits provision.	Provision for non-paid remuneration.	Provision for liabilities	Provision for holiday compensation

Balance as of 1 January 2009.	874	5 070	87	3 140
- provision creation	238	2 058	39	1 955
-provision winding-up	81	7 026	87	2 373
Balance as of31 2009	1 031	102	39	2 722

13.14 Contingent liabilities

In 2009, Capital Group companies used bank guarantees to secure payment of rent for leased retail premises where brand stores are located.

The total amount of bank guarantees granted at the request and on the responsibility of LPP S.A. as of 31 December 2009 was PLN 102 797 000, of which:

a) value of guarantees granted to secure agreements concluded byLPP S.A. was PLN 52 844 000.

b) value of guarantees granted to secure agreements concluded by consolidated related parties was PLN 44 708 000.

c) value of guarantees granted to secure agreements concluded by non-consolidated related parties was PLN 5 245 000.

As of 31 December 2009, the value of guarantees granted by the controlling company was PLN 12 287 000 and in comparison to the balance of 31 December 2008 it increased by PLN 895 000.

According to the Management Board, outflow of funds disclosed under off-balance sheet / contingent liabilities is unlikely. The majority of these liabilities are related to guarantees securing payment of rent by the Capital Group companies, and, to a smaller extent, securing credits granted by banks to customers of LPP S.A. for the purchase of the Company's goods.

13.15 Future liabilities arising from concluded lease agreements

The Group is party to lease agreements that entitle it to the use of retail premises where Reserved, Cropp, House, Mohito and Esotiq brand stores are located.

Total future minimum payments resulting from lease agreements, estimated as of 31 December 2009, are as follows:
- amounts due paid within 12 months from the balance sheet date PLN 236 478 000.
- amounts due paid from 12 months up to to 5 years from the balance sheet date PLN 647 525 000.
- amounts due with the mayurity date over 5 years from the balance sheet date PLN 230 322 000.

Under expenses of the reporting period from 1 January to 31 December 2009, the amount of PLN 239 331 000 is disclosed, resulting from the minimum and contingent payments of rent for the lease of retail premises. The amount of contingent rent is immaterial and was not presented separately.
Provisions of fixed-term lease agreements, providing these payments, are typical for this type of contracts. Apart from the minimum rent, these agreements usually provide for additional contingent rent if a specified level of revenues in the store is generated. Contingent rent is calculated as a percentage of these revenues. In the reporting period, the amount was immaterial and represented only about 2.01% of total

amount of rent. Retail lease agreements also contain adjustment clauses, linking the amount of rent with statistical price indices. Some agreements also contain clauses for possible renewal of the contract for another period, at the option of the lessee. As these retail lease agreements refer to premises located mainly in large shopping malls, they do not provide for the purchase of premises.

13.16 Credits

As of 31 December 2009, the Company’s payables related to bank credits were as follows:

Bank	Use of credits as of 31 December 2009			
	in PLN (000)	currency in (000)	Credit cost	Maturity date
PKO BP S.A.	89 830		wibor 1 m + bank’s margin	04
PKO BP S.A.	208 545		wibor 1 m + bank’s margin	30 June
Unicredit Prague	4 828	CZK 31 071	pribor 1 m + bank’s margin	30 June 2010
Unicredit Tiriac Bank SA	539	555 RON	euribor 1 m + bank’s margin	30 June 2010
TOTAL	303 742			

Bank credits amount to PLN 303 742 000, of which:
- long-term credits – PLN 227 270 000.
- short-term credits – PLN 76 472 000.

In comparison to the data of 31 December 2008, the Company's payables related to bank credits were as follows:

Bank	Use of credits as of 31 December 2008			
	in PLN (000)	currency in (000)	Credit costs	Maturity date
PKO BP S.A.	48 996		wibor 1 m + bank’s margin	23 June 2011
PKO BP SA	92 932		wibor 1 m + bank’s margin	04 November 2017
PKO BP SA	269 349		wibor 1 m + bank’s margin	13 June 2013
PKO BP SA	6 828		wibor 1 m + bank’s margin	26 March 2011
PKO BP SA	1 943		wibor 1 m + bank’s margin	15 March 2022
PEKAO S.A.*	20 779	USD 534	libor, wibor 1 m + bank's margin	31 July 2009
PEKAO SA	5 874		wibor 1 m + bank’s margin	27 March 2009

Fortis Bank Polska S.A.*	55 671	EUR 1	Euribor, WIBOR 1 m + bank's margin	25 November 2009
Raiffeisen Bank Polska S.A.	11 000		wibor 1 m + bank's margin	31 May 2010
Raiffeisen Bank Polska S.A.	32 574	USD 7 889	libor, wibor 1 m + bank's margin	31 May 2010
Unicredit Tiriac Bank SA	397	RON 382	euribor 1 m + bank's margin	18 December 2009
HSBC Bank Polska SA	1 422	USD 500	libor 1m + bank's margin	26 March 2009
Unicredit Slovakia	432	103 EUR	euribor 1 m + bank's margin	02 October 2009
Unicredit Prague	4 866	CZK 31 071	pribor 1 m + bank's margin	30 November 2009
TOTAL	553 063			

* Values expressed in foreign currencies do not reflect line of borrowing in foreign currency only. In both indicated cases there are borrowings in both foreign and Polish currency.

Bank credits amount to PLN 553 063 000, of which:

- long-term credits – PLN 306 097 000,
- short-term credits – PLN 246 966 000.

As of the balance sheet date, the Company's payables related to bank credits were as follows:

Bank	Type of credit	Amount and currency of credits: in (000)	currency	Security
PKO BP S.A.	Multi-purpose credit line	100 000	PLN	2 blank promissory notes
PKO BP S.A.	Investment Credit	100 000	PLN	ordinary real estate mortgage and deposit mortgage, transfer of liabilities from an insurance, blank promissory note
PKO BP S.A.	Investment Credit	394 800	PLN	ordinary real estate mortgage and deposit mortgage, transfer of liabilities from an insurance, blank promissory note, registered pledge on
Pekao S.A.	Multi-purpose credit line -multi currency credit line	115 000	PLN	blank promissory note
BNP Fortis S.A.	Limit of credit - multi-currency	100 000	PLN	blank promissory note
Raiffeisen Bank Polska SA	Multi-purpose credit line -multi currency	80 000	PLN	Blank promissory note, proxy for bank accounts
Raiffeisen Bank Rosja	Multi-purpose credit line	6 000	USD	guarantee of Raiffeisen Bank Polska SA
Unicredit Tiriac Bank SA	Credit line	1 800	EUR	guarantee of PEKAO S.A.
Unicredit Prague	Credit line	67 800	CZK	guarantee of PEKAO S.A.

13.17 Convertible bonds

On 09 July 2009 an entry to the National Court Register was made concerning the date of passing resolution on the issue of bonds convertible into bearer shares and on the value of conditional increase of share capital.
On 23 July 2009 non-public offer of series A bonds convertible into series K bearer shares was closed and settled.
As a result 80 846 bonds for the amount of PLN 129 353 600 were underwritten. Bond conversion price into shares amounted to PLN 1600.
The aim of bonds' issue was to gather funds needed to ensure uninterrupted business activity and further development of the Issuer.
The right to receive shares of series K through conversion of bonds may be executed every 6 months after the date of repayment the interests for the passing period.
Bonds that will not be converted into shares of series K, will be acquired by the Company after 36 months from the date of allotment of bonds.
If all issued bonds were converted, the total number of votes at GSM would be 3 231 123.

Pricing as of the balance sheet date is based on corrected purchase price pursuant to IAS 39. Annual discount rate used to carry out the valuation amounted to 10.18%.
After initial recognition in the book of the bonds in the purchase price, this value was divided liabilities and equity which can be converted into shares.

Equity component of this instrument was demonstrated in the remaining valuation's equity in the amount of PLN 12 290 000.
Pricing as of the balance sheet date is based on corrected purchase price pursuant to IAS 39.
As of 31 December 2009, the value of the liability component is PLN 120 979 000, including PLN 5 465 000 of interests.

13.18 Trade and other payables

SHORT-TERM PAYABLES	31 Dec 2009	in PLN (000) 31 Dec 2008
1) towards subsidiaries	1 003	3 384
- trade and services	1 003	3 384
2) towards other entities	224 326	244 808
- deliveries and services	182 767	186 464
- taxes, customs duties, insurance and other benefits	38 742	52 833
- remuneration	2 029	4 371
- other	788	1 140
TOTAL	225 329	248 192

13.19. Accruals

Value of accruals as of 31 December 2009 was PLN 3 016 000. The amount includes the following titles

ACCRUALS	31 Dec 2009	in PLN (000) 31 Dec 2008
Returns of goods from domestic sale	1 205	1 530
Selling gift cards and vouchers	1 214	1 094
Other	597	1 241
TOTAL	3 016	3 865

13.20 Revenues

REVENUES

	01.0109 - 31.12.09	in PLN (000) 01.0108-31.12. 08
1) net revenues from sales of services	26 163	9 267
2) net revenues from sales of goods and materials	1 976 932	1 613 732
TOTAL	2 003 095	1 622 999

The Group's revenues from sales of services concern the controlling company only. Services provided by the company include:

-know-how services related to management of brand stores by the Polish contractors,

-rental of own transport vehicles.

in PLN (000)

OTHER OPERATING REVENUES	01.01.09 - 31.12.09	01.01.08 - 31.12.08
1. Profit from sale of non-financial fixed assets	6 869	259
2. Subsidies	303	0
3. Other operating revenues	21,012	8,388
TOTAL	28,184	8,647

FINANCIAL REVENUES	01.010.09 31.12.09	01.01.08 31.12.08
1. Dividends	1,381	1,239
2. Interest	1,313	983
3. Other, including: - balance of foreign exchange differences	282	16,154
TOTAL	2,976	18,376

13.21 Expenses

in PLN '000

EXPENSES BY TYPE	01.01.09-31.12.09	01.01.08-31.12.08
1) depreciation and amortisation	96,131	66,360
2) consumption of materials and energy	47,847	52,287
3) outsourced services	547,966	407,573
4) taxes and fees	14,608	11,534
5) payroll	103,772	118,327
6) social insurance and other benefits, including: pension contribution	23,855 4,329	26,124 - 5,546
7) other expenses by type	26,894	47,920
TOTAL	861,073	730,125

in PLN '000

OTHER OPERATING EXPENSES	01.01.09-31.12.09	01.01.08-31.12.08
1) Loss on disposal of non-financial fixed assets	0	0
2) Revaluation of non-financial assets	14,027	14,014
3) Other	28,208	14,204
TOTAL	42,235	28,218

FINANCIAL EXPENSES	01.01.09-31.12.09	01.01.08-31.12.08
1) Interest	27,480	18,109
2) Other, including:	17,523	1,816
- commission on bank credits and guarantees	1,656	1,816
- balance of foreign exchange differences	15,867	0
TOTAL	45,003	19,925

13.22 Income tax

The main components of the tax liabilities of the Group for the year 2009 and the comparative period are shown in the table.

in PLN '000

Profit and loss account	2009	2008
Current income tax	47,459	42,800
Deferred income tax	-12,929	2,918
TOTAL	34,530	45,718

Reconciliation of income tax calculation disclosed in the consolidated profit and loss account for the years 2009 and 2008 is shown in the table below.

in PLN '000

INCOME TAX	2009	2008
Gross profit/loss of the Group before consolidation adjustments	114,892	158,429
Adjustments of costs and permanent tax-exempt	20,404	47,640
Gross profit/loss of the Group after the adjustments	135,296	206,069
Income tax at the average rate 22.41%, 19.06%	31,030	38,193
Tax consolidation adjustments:	4,207	8,131
Tax deductions	(707)	(606)
Income tax disclosed in the P&L	34,530	45,718

Income tax is calculated in compliance with the following rates:
- LPP SA – 19 %,
- Artman SA – 19%,
- ZAO Re Trading (Russia) – 24%,
- Es Style (Russia) – 24%,
- Fashion Point (Russia) – 24%,
- LPP Retail Estonia – 21%,
- UAB LPP (Lithuania) – 15%,
- LPP Reatil Latvia (Latvia) – 15%,
- LPP Hungary – 16%,
- LPP Ukraine AT – 25%.

The value of the assets and deferred tax provision shown in the balance sheet results from the liabilities and values shown in the following tables.

in PLN (000)

DEFERRED INCOME TAX ASSETS	31.12.2009	31.12.2008
surplus of balance sheet depreciation value over tax value of fixed assets	4,962	5,243
foreign exchange differences – payables	4,632	184
revaluation of trade receivables	1,216	1,380
revaluation of fixed assets		242
profit margin on goods unsold outside the Group	3,205	2,897
revaluation of inventories	479	571
tax loss	5,845	6,601
other	1,706	2,739
TOTAL	22,045	19,857

PROVISION FOR DEFERRED INCOME TAX	31.12.2009	31.12.2008
accelerated tax depreciation	1,768	6,684
not yet received interest on loans granted,	103	14
not yet received compensation	96	63
foreign exchange differences – receivables	777	7,673
other	951	410
TOTAL	3,695	14,844

Deferred income tax assets will be realised provided that the Group generates positive financial result in the future periods.

The deferred share of income tax shown in the profit and loss account for the years 2009 and 2008 results from the items presented in the following tables.

DEFERRED INCOME TAX ASSETS	2009	2008
surplus of balance sheet depreciation value over tax	(281)	2,396
foreign exchange differences – payables	4,448	(3,249)
revaluation of trade receivables	(164)	899
profit margin on goods unsold outside the Group	308	701
revaluation of fixed assets	(242)	0
revaluation of inventories	(92)	99
tax loss	(756)	5,415
other temporary differences	(1,033)	(864)
conversion foreign exchange differences	(302)	(101)
TOTAL	1,886	5,296

DEFERRED INCOME TAX PROVISION:	2009	2008
accelerated tax depreciation	(4,916)	385
not yet received interest on loans granted	89	9
not yet received compensation	33	178
foreign exchange differences – receivables	(6,896)	7,673
other	541	(24)
conversion foreign exchange differences	106	(7)
TOTAL	(11,043)	8,214

If a decision is made to pay out dividends to shareholders, income tax will be deducted from the payment.
In case of Polish shareholders – income tax at 19% tax rate takes effect, in case of foreign shareholders – the deduction of income tax depends on terms and conditions of the relevant double taxation agreement.

13.23 Earnings per share and diluted earnings per share

Earnings per share (EPS) ratio is calculated by dividing net profit of the parent company shareholders by the weighted average number of ordinary shares in the period.
Calculation of EPS is presented below:

	01.01.09-31.12.09	01.01.08-31.12.08
Net profit (loss) for the current period	104,721	167,507
Weighted average number of ordinary shares	1,726,514	1,691,857
Profit (loss) per ordinary share	60.65	99.01

Diluted earnings per ordinary share. The Group does not disclose diluted earnings per share as there is not one in LPP SA. Because of bond issue, anti-dilution has occurred. Potential ordinary shares, which might arise by the conversion of the bonds, are dilutive when their conversion to ordinary shares would reduce the net profit per one share.

13.24. Related party transactions

The Group's related parties include:

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

13.24.1 Key personnel

Key personnel of LPP SA include the Management Board and the Supervisory Board members.

The amount of short-term employee benefits received by key management personnel for the period between 1 January and 31 December 2009 was PLN 2,049k. Compensation of each member of key management personnel was as follows:

Marek Piechocki	President of the Management Board	PLN 543 000,
Dariusz Pachla	Vice-President of the Management Board	PLN 362 000
Piotr Dyka	Vice-President of the Management Board (for the period from September to December)	PLN 120 000
Hubert Komorowski	Vice-President of the Management Board (for the period from September to December)	PLN 120 000
Jacek Kujawa	Vice-President of the Management Board (for December)	PLN 30 000
Alicja Milińska	Vice-President of the Management Board (for the period from January to August 2009)	PLN 242 000
Aleksander Moroz	Vice-President of the Management Board (for the period from January to August 2009)	PLN 242 000
Stanisław Dreliszak	Vice-President of the Management Board (for the period from January to November 2009)	PLN 332 000
Jerzy Lubianiec	Chairman of the Supervisory Board	PLN 8 000, and PLN 12 000 for services other than membership in the Supervisory Board,

Other members of the Supervisory Board obtained a total of PLN 38 000.

Key personnel perform management functions in associated companies, but do not receive salaries or rewards for performing those functions.

For the Management Board members on 31 December 2009 provisions for retirement severance payments have been accrued, amounting to PLN 51k, and for not taken leaves amounting to PLN 85k.

Under the Resolution of the Supervisory Board, members shall be entitled to additional remuneration (exchangeable for the right to buy shares under the incentive scheme), depending on the annual profit gained by GK LPP SA in the fiscal year. Because of the fact that the profit of GK LPP in 2009 was lower than the required to launch this programme, the remuneration will not be paid.

13.24.2 Related party transactions

in PLN '000

No.	RELATED PARTIES	payables as at 31 December 2009	receivables as at 31December 2009	revenues in 2009	expenses in 2009
1.	Polish subsidiaries total	1,003	349	4,619	28,304
TOTAL		1,003	349	4,619	28,304

No.	RELATED PARTIES	payables as at 31 December 2008	receivables as at 31 December 2008	revenues in 2008	expenses in 2008
1.	Polish subsidiaries total	3,384	41	99	62,639
TOTAL		3,384	41	99	62,639

Amounts presented in the table show only intercompany transactions between LPP SA and 19 Polish non-consolidated subsidiaries and are presented from the point of view of the parent company.
Data presented as payables of LPP SA are receivables in related parties, and costs are equivalent to revenues of the 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.

13.25 Segment reporting

Financial results and other information regarding geographical segments for the period from 1 January 2009 to 31 December 2009 and for the comparative period, have been presented in the tables below.

2009					in PLN '000
	EU countries	Other countries	Consolidation adjustments	Amounts not attributed to the segments	Total
External sales	1,787,190	215,905			2,003,095
Intersegment sales	99,404		-99,404		-
Other operating revenues	20,470	1,229		6,485	28,184
Total revenues	*1,907,064*	*217,134*	*-99,404*	*6,485*	*2,031,279*
Total operating expenses, including:	1,616,569	195,879	-94,578	89,896	1,807,766
Costs of intersegment sales	72,758		-72,758		-
Other operating expenses	38,393	3,842			42,235
Segment result	*252,102*	*17,413*	*-4,826*	*-83,411*	*181,278*
Financial revenues					2,976
Financial expenses					45,003
Profit before tax					*139,251*
Income tax					34,530
Net profit from continuing operations					*104,721*
Loss from discontinued					-87
Net profit					*104,634*

Segment assets	1,366,939	117,937	-145,962		1,338,914
Other assets of the whole group				22,689	22,689
Total consolidated assets					*1,361,603*
Segment liabilities	245,695	142,837	-136,470		253,062
Other liabilities of the whole group				422,951	422,951
Total consolidated liabilities					*676,013*

Other disclosures	EU countries	Other countrie
Segment capital expenditure	133,876	10,207
Segment depreciation	81,558	14,573
Impairment write-offs	13,134	892
Release of impairment write-offs	10,095	455
Other non-cash expenses	11,892	3,975

2008					in PLN '000
	EU countries	Other countries	Consolidation adjustments	Amounts not attributed to the segments	Total
External sales	1,442,386	180,613			1,622,999
Intersegment sales	87,557		-87,557		-
Other operating revenues	8,153	235		259	8,647
Total revenues	*1,538,096*	*180,848*	*-40,578*	*259*	*1,631,646*
Total operating expenses, including:	1,213,378	168,369	-86,341	93,248	1,388,654
Costs of intersegment sales	65,109		-65,109		-
Other operating expenses	22,452	5,766			28,218
Segment result	*302,266*	*6,713*	*-1,216*	*-92,989*	*214,774*
Financial revenues				18,376	18,376
Financial expenses				19,925	19,925
Profit before tax					*213,225*
Income tax					45,718
Net profit					*167,507*

Segment assets	1,410,611	137,972	-143,389		1,405,19
Other assets of the whole group				21,014	21,014
Total consolidated assets					*1,426,20*
Segment liabilities	288,405	160,138	-155,476		293,067
Other liabilities of the whole group				567,906	567,906
Total consolidated liabilities					*860,973*

Other disclosures	EU countries	Other countrie
Segment capital expenditure	204,517	34,356
Segment depreciation	54,889	11,471
Impairment write-offs	9,240	4,774
Release of impairment write-offs	3,013	-
Other non-cash expenses	13,212	992

*Assets impairment write-offs by segments shown in the profit and loss account include:

- receivables revaluation write-offs;
- inventory revaluation write-offs
- assets revaluation write-offs

Impairment and reversal were done in conjunction with the occurrence or the termination of conditions associated with the occurrence of overdue and irrecoverable receivables

Marek Piechocki

President of the Management *Board*

Dariusz Pachla	*Hubert Komorowski*	*Piotr Dyka*	*Jacek Kujawa*
Vice-President of the Management Board	Vice-President of the Management Board	Vice-President of the Management Board	Vice-President of the Management Board

Gdansk, 15 April 2010

MANAGEMENT BOARD REPORT ON LPP SA CAPITAL GROUP OPERATIONS FOR THE YEAR 2009

1. Information on core products, goods or services with qualitative and quantitative description and the share of particular products, goods or services (if significant) or their groups in the Issuer's total sales volume and information on their changes during the fiscal year.

LPP SA Capital Group is composed of 20 Polish companies (including the parent company) and 14 foreign companies.
The financial statement of LPP SA Capital Group covering the period between 1 January and 31 December 2009 includes individual results of LPP SA for the said period and results of consolidated companies listed below, covered by the consolidated financial statement as at 31 December 2009, and financial data of UAB House Plius for the period between January and October 2009 (the company has been absorbed by other subsidiary: UAB LPP)

1. LPP Retail Estonia OU
2. LPP Retail Latvia Ltd
3. LPP Czech Republic s.r.o. ;
4. LPP Hungary Kft
5. UAB LPP
6. LPP Ukraine AT
7. ZAO Re Trading
8. LPP Fashion Distribuitor SLR
9. ES Style
10. Fashion Point
11. LPP Retail Bulgaria Ltd.
12. Artman Mode s.r.o
13. UAB Artman s.r.o.
14. Artman Slovakia s.r.o.

LPP SA, as the parent company, is 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, Cropp and House brands outside Poland.
Clothing is the core product sold by LPP Capital Group companies.
Designs of clothing are prepared in the design offices located at the registered offices of LPP SA in Gdańsk and Cracow, and the production of individual products is commissioned to production plants in Poland and abroad.
Production in China is managed by the Company's trading office in Shanghai. The company's offer covers a very wide scope of products. It includes, among other things,
coats (jackets, overcoats), jumpers, sweatshirts, trousers, dresses, blouses and shirts as well as underwear and other accessories – caps, scarves, gloves, shoes etc. Small amounts of clothes and footwear of other brands offered in the Cropp Town network are purchased in Poland from their distributors.
The Capital Group also generates revenues from sale of services.

Source of revenues	2009 PLN '000 Share in sales volume (%)	2008 PLN '000 Share in sales volume %
Sales of commercial goods	1,976,933 (98.69%)	1,613,732 (99.43%)
Services	26,162 (1.31%)	9,267 (0.57%)
Total	**2,003,095 (100.00%)**	**1,622,999 (100.00%)**

The main channels of distribution guaranteeing the development of the Capital Group are networks of Reserved, Cropp and House brand stores, selling products to individual customers.

	2009		2008	
	PLN (000)	share in sales volume %	PLN (000)	share in sales volume %
Channel of distribution				
Reserved brand stores	1 118 211	55,82%	1 089 100	67,10%
Export	42 887	2,14%	43 624	2,69%
Cropp brand stores	364 619	18,20%	335 300	20,66%
House brand stores	289 842	14,47%		
- Other	187 536	9,36%	154 975	9,55%
Total	**2 003 095**	**100,00%**	**1 622 999**	**100,00%**

2. Information on markets (Polish and foreign) and suppliers of production materials, goods and services, determining dependence on one or several customers and suppliers, and when the share of one customer or supplier reaches at least 10% of total revenue from sales – name of the supplier or customer, his share in sales or supply volume and his formal connections with the Issuer's Capital Group.

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 between 01.01.2009 and 31.12.2009	revenues from sales between 01.01.2008 and 31.12.2008
LPP SA*	Poland	1,525,730	1,218,405
LPP Retail Estonia OU	Estonia	34,171	33,189
LPP Retail Latvia Ltd	Latvia	26,252	29,683
LPP Retail Czech Republic s.r.o.**	the Czech	102,139	90,470
LPP Hungary Kft.	Hungary	20,722	20,140
UAB "LPP" ***	Lithuania	40,796	38,768
LPP Ukraine AT	Ukraine	28,174	26,430
ZAO "Re Trading"****	Russia	187,731	155,329
LPP Fashion Distributor SRL	Romania	22,778	10,585
Artman Slovakia	Slovakia	11,806.53	
LPP Retail Bulgaria Ltd.	Bulgaria	2,797.07	0
Total:		**2,003,095**	**1,622,999**

* LPP SA together with GK Artman SA (for 2008)
**total revenues of 2 companies in the Czech Republic: LPP Retail Czech Republic s.r.o. and Artman Mode s.r.o. (for 2009)
*** total revenues of 2 companies in Lithuania: UAB LPP and UAB House Plius (for 2009)
**** total revenues of 3 companies in Russia: ZAO RE Trading, Es Style Russia, Fashion Point Russia (for 2009 and 2008)

Export sales to entities other than Capital Group companies were run by LPP SA only and totalled PLN 42,887k, i.e. 2.14% of total revenues. Presented below are the main directions of export sales of the Capital Group.

EXPORT VALUE		
Country	2009	2008

	value in export PLN (000)	share in export %	value in export PLN (000)	share in export %
Slovakia	27,325	63.71%	28,859	62.96%
Russia	9,193	21.44%	9,053	19.75%
Ukraine	3,223	7.52%	4,070	8.88%
Belarus	1,023	2.39%	184	0.40%
the Czech Republic	607	1.42%	498	1.09%
Other	1,516	3.53%	3,172	6.92%
Total	**42 887**	100,00%	**45 836**	100,00%

Dependence of the Issuer's Capital Group on customers

The Capital Group companies are not dependent on any customer. Share of none of the customers exceeds 10% of the total sales volume in the Capital Group.

Dependence of the Issuer's Capital Group on suppliers

Foreign companies of LPP SA Capital Group are supplied with trading goods by LPP SA.

Companies producing goods for LPP SA are mainly based in China. Purchases made in China represented 70% of the total purchase volume. Additionally, the Company purchased goods from Polish (about 5%) and other European (about 3%) and Asian (about 22%) producers. Purchase volume did not exceed 10% of sales for any of the suppliers.

The Company concluded framework agreements, determining general terms and condition of co-operation. Individual products are manufactured for the Company on the basis of detailed contracts, concluded separately for each individual delivery.

3. Description of basic economic and financial figures, disclosed in the annual consolidated financial statement, in particular description of factors and events, including extraordinary events, strongly influencing the Issuer's Capital Group's business and its profits or losses during the fiscal year.

Key achievements of LPP SA Capital Group in 2009:

1) Revenues from sales of LPP SA Capital Group amounted to PLN 2,003m and increased by 23.42% in comparison with the previous year.

2) In 2009 LPP SA Capital Group generated net profit of about PLN 105m – it decreased by 37.53% in comparison with 2008 (about PLN 168m)

3) In 2009 the total selling area of brand stores increased by about 64 thousand sq. m (about 29%). The total retail selling area in the entire LPP SA Capital Group amounted to approx. 288 thousand sq. m, including approx. 92 thousand sq. m outside Poland.

Results generated by LPP SA Capital Group depended primarily on the performance of three retail sales networks, Reserved, Cropp and House, with the major part of revenues and profits generated by Reserved stores.

Presented below are basic economic and financial figures and their changes in comparison with the previous year.

Item	2009 (in PLN)	2008 (in PLN)	change %
net revenues from sales	2,003,095	1,622,999	23.42%
profit from sales before tax	1,057,872	965,030	9.62%
profit from sales	195,329	234,345	-16.65%
operating profit	181,278	214,774	-15.60%
profit from ordinary activities	139,251	213,225	-34.69%
net profit	104,634	167,507	-37.53%
equity	685,589	565,235	21.29%
payables	676,014	860,973	-21.48%
long-term *payables*	347,725	322,316	7.88%
short-term *payables*	328,289	538,657	-39.05%
- bank credits	76,472	246,966	-69.04%
- trade payables	225,329	248,192	-9.21%
fixed assets	739,993	766,704	-3.48%
current assets	621,610	659,504	-5.75%
Inventories	322,756	462,644	-30.24%
short-term receivables	93,426	100,895	-7.40%

Increase in revenues from sales by 23.42% was achieved mainly by development of the network of Reserved and Cropp Town brand stores, and the acquired House brand stores (increase in the total selling area by approx. 29%).

Gross profit margin reached 52.81% and was lower than in the previous year (59.46%) by 6.65 percentage points. This was due to increased purchase prices of offered products, which resulted from a clear weakening of PLN against USD.

Profit from sales decreased by 16.65%, as profit margin decrease was accompanied by increase in costs caused by the significant expansion of retail space. Operating profit amounted to PLN 181,278k (decrease by 15.60% compared with 2008) and the operating profit margin amounted to 9.05% (in 2008: PLN 214,774k and 13.23%, respectively).

Profit from ordinary operations decreased by 34.69% compared with the previous year and amounted to PLN 139,251k.

Net profit generated in 2009 amounted to PLN 104,634k and, compared with the previous year (PLN 167,507k), decreased by 37.53%. The resulting net profit margin amounted to 5.22% (in 2008 it was 10.32%).

Shareholders' equity of LPP SA increased by 21.29% in 2009. It was mainly caused by the transfer of generated profit to equity.

Balance of long-term payables increased by 7.88% as a result of the issuance of securities – convertible bonds.

Balance of short-term payables decreased by 39.05% compared with 2008.

At the end of 2009, payables related to bank credits were reduced by 69.04% compared with the end of 2008, and trade payables decreased by 9.21%.

In the analyzed period, the value of fixed assets decreased by 3.48% as a result of a reduction in investments in subsidiaries and higher depreciation value.

Current assets decreased by 5.75% compared with the end of 2008. This was mainly due to the decline in inventories, which decreased by 30.24% as a result of the action taken by the Company in order to reduce inventories in the distribution centre warehouses.

Values of profitability ratios, presented in the table below, result directly from factors described above, determining the value of each category of profit.

1. Profitability ratios

In 2009, all profitability ratios were slightly lower than in 2008.

Profitability ratios presented in the table have been calculated as follows:

a) gross profit margin – gross profit on sales divided by revenues from sales of goods and services;

b) operating profit margin – operating profit divided by revenues from sales of goods and services;

c) net profit margin – net profit divided by revenues from sales of goods and services;

d) return on assets (ROA) – net profit divided by average assets during the fiscal year;

e) return on equity (ROE) – net profit divided by average equity during the fiscal year;

name	2009	2008	change %
	%	%	
gross profit margin on sales	52.81%	59.46%	-6.65%
operating profit margin	9.05%	13.23%	-4.18%
net profit margin	5.22%	10.32%	-5.10%
return on assets (ROA)	7.51%	15.78%	-8.27%
return on equity (ROE)	16.73%	34.51%	-17.78%

2. Liquidity ratios

Current ratio increased compared with the previous year by 54.65% and amounted to 1.89. Quick ratio also improved compared with the previous year and reached 0.91. These changes were caused by the decrease of the Company's short-term debt.

Inventory turnover has decreased from 206 to 150 days, which is the result of the action taken by the Company to reduce inventory held in the logistic centre.

Receivables turnover remains close to the value achieved in 2008.

Payables turnover has improved, reaching 90 - by 20.56% less than in 2008.

Liquidity ratios have been calculated as follows:

a) current ratio – current assets divided by the carrying amount of short-term payables;

b) quick ratio – current assets less inventory divided by the carrying amount of short-term payables;

c) inventory turnover ratio (days) – average inventory divided by costs of goods and products sold and multiplied by the number of days in a given period;

d) receivables turnover ratio (days) – average trade receivables divided by revenues from sales and multiplied by the number of days in a given period;

e) trade payables turnover ratio (days) – average trade payables divided by costs of goods and products sold and multiplied by the number of days in a given period;

name	2009	2008	chang %
liquidity ratio I (current ratio)	1.89	1.22	54.65%
liquidity ratio II (quick ratio)	0.91	0.37	145.95%
inventory turnover (days in inventory)	150	206	-27.31%

days in receivables (days)	17	18	-5.56%
days in trade payables	90	113	-20.55%

3. Asset Management Ratios

Fixed assets to equity ratio compared with year improved by 18.93% in the previous

Total debt and short-term debt ratios decreased compared with 2008.

Long-term debt ratio remains similar to the value achieved in 2008.

The ratios have been calculated as follows:

a) fixed assets to equity ratio – shareholders' equity divided by fixed assets;
b) total debt ratio – long and short-term debt (including provisions for liabilities) divided by the balance sheet total;
c) short-term debt ratio – short-term debt divided by the balance sheet total;
d) long-term debt ratio – long-term debt divided by the balance sheet total;

	2009	2008	change
	%	%	%
fixed assets to equity ratio	92.65%	73.72%	18.93%
total debt ratio	49.65%	60.37%	-10.72%
short-term debt ratio	24.11%	37.77%	-13.66%
long-term debt ratio	25.54%	22.60%	2.94%

4. Information on agreements vital **for the Capital** Group's **business, including agreements between shareholders (partners) known to the Issuer** and **as well as insurance, partnership or co-operation contracts.**

In 2009 the Capital Group concluded the following material contracts:

- Insurance contracts:
  - Property insurance policy
  - Third Party Insurance
  - Electronic Equipment Insurance (EEI)
  - Construction All Risk Insurance (CAR)
  - Machinery Insurance Policy
  - Transport Insurance
- Guarantee for the Fulfilment of Customs Obligation
- 115 lease agreements with distributors of retail premises. These agreements concern the premises where clothing under Reserved and Cropp brands is sold, and from 01 July 2009 also House, Mohito and Esotiq underwear. Information on valuable contracts (of value over 10% of equity) has been published in current reports (CR 2/2009, CR 8/2009, CR 10/2009, CR 26/2009)
- Annexes to the credit agreements already in operation. Information on these contracts has been published in current reports (CR 17/2009, CR 37/2009, CR 38/2009). A list of credit agreements is presented in Notes to the financial statement (section 13.16).

The Company has no knowledge of any contracts concluded by and between its Shareholders with potential impact on its operations.

5. Information on changes in the **Capital Group's organisational or capital relations with other parties and** determination **of its major domestic and foreign investments (**securities, **financial instruments,** intangible **assets and** real **estate), including capital expenditure outside its** group **of** related **parties and methods of their financing.**

Investments made by LPP SA Capital Group are related mainly to the related parties. The total value of shares in non-consolidated related parties amounts to PLN 719k. In addition, loans granted by LPP SA Capital Group to third parties amount to PLN 644k.

In 2009 there was a substantial change in organizational and capital
relations of the LPP SA
Capital Group, as a result of the Company's announcement on 26 January 2009 and the demand of the compulsory purchase of the shares of Artman SA, it acquired the remaining 15,951 shares of the company, thus becoming the owner of 100% shares of Artman SA and holding 100% of the total votes at the General Meeting of Shareholders of Artman SA.
The purpose of shares acquisition was a merger by acquisition, under art.492 of Sections 1 & 1 of the Commercial Companies Code, of Artman SA and LPP SA, which took place on 1 July 2009.
Acquisition of shares was financed by a loan (CR 50/2008 dated 13-08-2008).

In 2009 the winding-up proceeding of subsidiaries was initiated. The decision concerning liquidation of some of the subsidiaries resulted from the fact of the LPP SA becoming the landlord in retail premises lease agreements, where the party have so far been the companies in liquidation, which made the continued operation of the companies unnecessary (CR 21/2009, CR 41/2009, CR 42/2009, CR 51/2009).
As at 31.12.2009 LPP SA was the parent company to thirty-three companies (towards eleven of which the winding-up proceeding has been initiated).
LPP SA holds direct control in its subsidiaries, i.e. owns 100% share in their capital and 100% of the total number of votes held.

Details concerning capital expenditure of the Company are described in the Notes to the statement in sections 13.3 and 13.4.

All transactions in the reporting period within the Capital Group were concluded at arm's length.

6. Description of significant transactions concluded by the Issuer or its subsidiary with related parties not at arm's lenght , together with amounts and information specyfying the nature of these transactions.

All transactions in the reporting period within the Capital Group were concluded at arm's length.

7. Information on credits and loans incurred, specifying their maturity as well as guarantees and sureties granted to the Issuer.

Information on credits incurred as at 31 December 2009 and their maturity is presented in Notes to the financial statement in section 13.16.

In 2009 LPP SA Capital Group used bank guarantees to secure the payment of rent for leased retail premises where brand stores are located. LPP SA Capital Group requested for bank guarantees to secure retail lease agreements where LPP SA or its related parties are lessees.
As at 31 December 2009 the total value of bank guarantees granted at the request and on the responsibility of the Issuer amounted to PLN 102,797k, of which:

d) guarantees granted to secure lease agreements concluded by LPP SA – PLN 52,844k
e) guarantees granted to secure lease agreements concluded by consolidated related parties – PLN 44,708k
f) guarantees granted to secure lease agreements concluded by non-consolidated related parties – PLN 5,245k

In the previous year no loans were incurred by the Capital Group companies.

8. Information on loans granted, in particular to the Issuer's related parties, specifying at least their kind, amount, interest rate, currency and maturity.

Information on loans granted by LPP SA Capital Group is described in the Notes to the financial statement (section 13.7).

9. Information on loans granted, specifying their maturity as well as guarantees and sureties granted by the Issuer, in particular loans, sureties and guarantees granted to the Issuer's related parties.

In the reporting period, the Company issued the following guarantees:

Description	Amount (in PLN (000)
Line for Paylink Citibank-Handlowy cards, guaranteeing payables of the company's customers in respect of the bank	5,740
Guarantee for a promissory note issued to Orlen for one entity	22
Guarantee for the daughter company Re Trading under the commercial contract	832
Guarantee for the daughter company LPP Ukraine concerning premisses lease	34
Guarantee for the daughter company LPP Hungary Kft	2,557
Guarantee for the daughter company LPP Retail Estonia	464
Guarantee for the daughter company LPP Fashion Distribuitor (Romania)	793
Guarantee for the company Fashion Point- Russia	879
Guarantee for the company LPP Czech Retail	478
Guarantee for the daughter company Artman S.R.O.	488

In the previous year LPP SA Capital Group was not granted any guarantees (except for guarantees granted by LPP SA to its subsidiaries).

No guarantees or sureties were granted by subsidiaries. Subsidiaries received the above sureties related to bank guarantees from the parent company only.

10. Appropriation of receipts from share issue.

In 2009 the Company conducted the issue of series I shares.
4,210 new series I bearer shares, each of the nominal value of PLN 2.00, were issued within the target capital excluding the subscription rights in order to implement the incentive scheme (second tranche).
Shares of the series were offered to key staff and collaborators at the issue price of PLN 2.00 for each. The funds from this issue, amounting to PLN 8,420, were spent on current activities of the Company.

11. Explanation of differences between financial results disclosed in the annual report and forecast results for the fiscal year that were not published before.

The forecast of financial results was not published.

12. The assessment (and its justification) of financial assets management with particular focus on the ability to meet the obligations, as well as identification of potential threats and action the Issuer has taken or is going to take in order to prevent them.

LPP Capital Group settles all its material payables towards the country and customers on an on-going basis. The basic business model involving the conduct of retail sales allows to receive immediate payments for goods sold. Generated receipts and concluded credit agreements provide full security of incurred liabilities.

13. Assessment of the feasibility of investment plan implementation, including capital expenditure, compared with the value of assets owned, and taking into account possible changes in the structure of the investment financing.

Investment plans will be put into practice due to owned and generated on an on-going basis receipts.

14. Assessment of factors and extraordinary events influencing the financial results for the fiscal year, and identification of their impact on the financial result.

In 2009 the financial results were adversely affected by the economic downturn and the weakening of PLN against USD. Weakening of PLN against USD significantly reduced gross margin on sales (by over six percentage points). The volume of gross profit from sales, generated at the margin achieved in 2008, would have amounted to PLN 80m more, which could have led to net profit increase by 80% compared with the actually generated.

15. Description of external and internal factors that are vital for the Issuer's company's development and description of the Issuer's business development perspectives, at least for the current fiscal year, taking into account elements of the Issuer's market strategy. Description of key risk and threat factors, and their probability.

Basic tasks of LPP SA Capital Group determining its future market position are as follows:
a) developing the network of brand stores in Poland and Central and Eastern Europe,
b) building strong clothing brands (Reserved, Cropp, House, Mohito, Esotiq), c) growth of profitability and effectiveness of conducted operations.

Development of the Issuer's strategic tasks and goals will depend on the following internal and external factors (representing both opportunities and threats):
Internal factors

a) Market strategy of LPP SA Capital Group

LPP SA Capital Group is focused on designing and distribution of clothing as well as building its brand while outsourcing many activities to third parties. GK LPP SA does not have its own production capacity, which significantly reduces fixed costs. Production of all the garments is commissioned to contractors mainly from the Far East. As a result, the objective of all investments is to increase the Group's trading potential, maintain its competitive edge on the market, develop its own distribution network, create good image of LPP SA Capital Group on the clothing market, gain new customers and ensure their loyalty.

The development strategy for leading brand - Reserved, assumes taking action to improve the image of the uniqueness and prestige of this brand in the eyes of customers, leaving it still in the mass clothing segment.
LPP SA Capital Group development strategy also assumes brand portfolio extension. For this reason, LPP SA merged with another company - Artman SA, the owner of House and Mohito brands. House brand is being developed in foreign markets, where the Group's goods are distributed.
Expanding of brand portfolio allowed to create one of the largest companies in this part of Europe, that offers clothing and clothing accessories through the network of specialized brand stores. As a result of the synergy, the range of goods offered for sale by the Capital Group has been widened and operating costs have been reduced.

b) The Group’s market position

The volume of revenues from sales generated by LPP SA Capital Group, confirms its good position in the domestic market. Inspite of its relatively low (3-5%) market share, the Capital Group is also one of the most important entities in the domestic market. Its significance has increased in connection with the merger with Artman SA. Group companies, operating in 2009 in ten countries excluding Poland, are visible in these markets and increasingly strengthen their positions as significant players. The total number of retail outlets that sell Reserved, Cropp, House, Mohito and Esotiq clothing in Poland and abroad, is very high and amounts to 841 units covering the area of 288 thousand sq. m.

c) Extending and renewing the offer for the customers of LPP SA Capital Group

Products marketed by LPP SA Capital Group meet expectations of target customers groups connected to individual channels of distribution. Since the clothing industry is strongly correlated with changes in fashion trends, LPP SA watches the changing preferences of customers, and every year introduces new product groups, trying to anticipate market needs. To some extent, especially in the case of Reserved brand stores, LPP SA is trying to create its own style, based on global trends.

d) Logistics.

Logistics Center - the largest construction investment in the history of LPP SA Capital Group, which is also one of the most modern investments in Poland in terms of technology complexity and logistics processes for the warehouses dealing with clothing, makes stocking goods in many places unnecessary. The use of modern technology improves and increases the distribution process efficiency, and thus enables to reduce the amount of stored clothes.

e) Action aimed at reducing costs.

To ensure LPP SA Capital Group high level efficiency and productivity, the action has been taken to reduce the costs, among other things: decrease of the employment growth rate, development of the high efficiency modern logistic centre, using only the most effective marketing activities, limitation of some investments.
After years of concentration on growth and development, for coming years LPP SA Capital Group has adopted the strategy of profitability increase at the lower pace of the growth of commercial space achieved in recent years.

External factors

a) The economic slowdown in Poland and countries where LPP SA Capital Group stores operate. Negative changes that have occurred in the global economy for nearly two years, are also present in Poland. Many adverse events that may reduce the amount of funds spent on consumption should be expected. Anticipating such a situation, the Issuer has taken a number of actions aimed at changing the structure of the offer by increasing the range of simpler models at lower prices and introducing operating costs limitations.

b) Foreign exchange rates

The main accounting currency for the majority of goods purchase transactions is USD. A small proportion of the settlements is conducted in EUR.
The majority of receipts from sales is obtained in PLN. Instability of the Polish currency against USD and Euro constitutes risk, the faster the changes (PLN/USD), the bigger the risk. Given the specific type of the Company's business, it is possible to partially transfer the risk of increase in USD exchange rate to end customers, as the product selling price is calculated just before the product is introduced to the market.
In addition to foreign exchange risk concerning the accounting currency used for the purchase of commercial goods, there is also the risk associated with the fact that the commercial space rents are settled in EUR.

Information on foreign exchange risk is presented in section 10 of the Notes to the financial

statement. c) Changes in fashion affecting our product attractiveness.

The key factor in clothing company's success is the sense of changes in fashion trends and offering the range of goods meeting the current preferences of buyers.
LPP SA Capital Group pays great attention to the latest fashion trends. Design department is constantly observing the changing trends and adapts them to meet the customers' needs, so as to continue to offer desirable products at very good price-quality ratio. In order to fulfil its tasks, the designers participate in trade fairs around the world, benefit from the professional literature and information on issues related to fashion available on the Internet. LPP SA Capital Group, being aware of its enormous impact on the results of its operations, pays particular attention to this issue.

Perspectives for development of the Issuer's business

Long-term development strategy of LPP SA Capital Group assumes strengthening the existing market position, further expansion both in the domestic and foreign markets, as well as increased profitability and efficiency.
At the end of 2009, in Poland and the region there were 841 stores (Reserved, Cropp, House, Mohito, Esotiq) with the total selling area of approx. 288 thousand sq. m. In 2010 the Group is planning to open new stores and increase the total selling area of the brand stores network by several percentage points.

16. Information on treasury shares buy-back, in particular the purpose of buy-back, number and nominal value of treasury shares, % of share capital represented by treasury shares, buy-back price and selling price (if sold) of treasury shares.

In 2009 LPP SA Capital Group did not purchase treasury shares.

17. Information on key achievements in research&development area

No research and development works were carried out by LPP SA Capital Group.

18. Financial instruments related to:

a) the risk of: prices change, credit, serious disruption of cash flows and financial liquidity loss

In line with the International Accountancy Standards on detailed principles of recognition, valuation, disclosure and presentation of financial instruments, the following financial instruments were identified by the Capital Group:

- loans granted
- bank credits incurred,
- convertible bonds issued,
- bank deposits.

The Company also identified embedded derivatives connected with:

- retail lease agreements for brand stores with rent calculated based on foreign exchange rates
- payables denominated in foreign currencies connected with purchase of trading commodities abroad
- receivables denominated in foreign currencies connected with sales of trading commodities to foreign customers.

In line with the International Accountancy Standards on principles of recognition, valuation, disclosure and presentation of financial instruments, embedded derivatives are not measured and presented in the balance sheet.

b) purposes and methods of financial risk management, including methods of hedging key types of planned transactions, for which hedge accounting is used.

- currency risk – discussed in section 15 above as an external risk factor,

2) interest rate risk – according to the Management Board opinion, based on the analysis of changes in interest rates in previous periods, any potential increase of this parameter determining the amount of credits granted and issued bonds cannot have any significant impact on financial results,

3) credit risk – this risk is connected primarily with loans granted to foreign subsidiaries. These loans were granted and used to develop the sales network abroad. The Management Board is of the opinion that there is no threat of any loss of these amounts, although their repayment may be delayed in some cases.

LPP SA Capital Group does not hedge these risks.

19. Changes in basic principles of management of the Issuer's business and its Capital Group.

In 2009 there were no major changes in the management of the Issuer's business and its Capital Croup.

20. Total number and nominal value of all the Issuer's shares and all shares in the Issuer's related parties held by members of the Issuer's Management and Supervisory Board.

As at 31.12. 2009 members of the Issuer's Management and Supervisory Board held the following number of shares of the Company:

Shareholder	Number of shares held	Number of votes at the General Meeting of Shareholders	Nominal value of shares
President of the Management Board	324,390	1,024,390	648,780
Vice-President of the Management Board	2,664	2,664	5,328
Vice-President of the Management Board	17	17	34
Vice-President of the Management Board	137	137	274
Chairman of the Supervisory Board	226,338	926,338	452,676

Members of the Issuer's Management and Supervisory Board hold no shares in the Issuer's related parties.

21. Information on any agreements known to the Issuer (including agreements concluded after the balance sheet date) which may change the present structure of share ownership in the future in terms of number of shares held by current shareholders and bondholders.

In 2009, the Company issued series A bonds convertible into series K shares. As a result, 80,846 bonds were included in the offer, for the amount of PLN 129m. Issuer's shares purchase by bonds into shares conversion may cause changes in the structure of share ownership in terms of number of shares held by current shareholders and bondholders. The conversion may take place in the semi-annual periods from the issue date of the convertible bonds, i.e., from 23 July 2009.
If all the bonds were converted, the total number of shares would amount to 1,831,123 and the number of votes at LPP SA General Meeting of Shareholders to 3,231,123.
Details on the bond issue were published in current reports: CR 34/2009, CR 35/2009.

22. Information on the control system of employee share schemes.

Not applicable.

23. Agreements concluded between the Company and members of its Management Board, providing compensation in the event of their resignation or dismissal from positions currently held for no justified reason, or if they are recalled or dismissed as a result of business merger by take-over.

None.

24. Amounts of remuneration, bonuses or rewards, including those received under incentive or bonus schemes based on the Issuer's capital, schemes based on bonds with pre-emptive rights, convertible bonds, subscription warrants (in cash, in kind or any other form), paid, due or potentially due to members of the Issuer's Management Board and Supervisory Board (separately).

These amounts are presented in section 13.20.1 of the Notes to the financial statement.

25. Entity entitled to audit financial statements.

On 21 January 2008, LPP SA concluded an agreement with HLB Frąckowiak i Wspólnicy Sp. z o. o. (certified auditor of financial statements, licence no. 238), concerning:

1) auditing the financial statement for the period from 1 January 2008 to 31 December 2008, giving opinion about it and preparing the audit report.
2) auditing the Capital Group's consolidated financial statement for the period from 1 January 2008 to 31 December 2008, giving opinion about it and preparing the audit report.
3) auditing the interim financial statement for the period from 1 January 2008 to 30 June 2008 and preparing the audit report.
4) auditing the consolidated interim financial statement for the period from 1 January 2008 to 30 June 2008 and preparing the audit report.
5) auditing the financial statement for the period from 1 January 2009 to 31 December 2009, giving opinion on it and preparing the audit report.
6) auditing the Capital Group's consolidated financial statement for the period from 1 January 2009 to 31 December 2009, giving opinion on it and preparing the audit report.
7) auditing the interim financial statement for the period from 1 January 2009 to 30 June 2009 and preparing the audit report.
8) auditing the consolidated interim financial statement for the period from 1 January 2009 to 30 June 2009 and preparing the audit report.

The total amount of net fee due under the above agreements concerning a fiscal year was approx. PLN 154k plus VAT (22%) (the annex from 8 October 2009 changed it).

In addition to the above-described contract concerning auditing reports for the year 2009, Grand Thornton Frackowiak Sp. Ltd. at the request of LPP SA verified documents required for submission in connection with the merger of LPP SA and Artman SA. Cost of the service was PLN 2.8k plus VAT (22%). In addition, Grand Thornton Frackowiak Sp. Ltd. provided tax consultation for LPP SA, and the cost of this service was PLN 22k plus VAT (22%).

Grand Thornton also provided in 2009 services involving auditing the financial statements of the company acquired by the Issuer, Artman SA. Cost of the service amounted to PLN 50k plus VAT (22%).

For the previous fiscal year, for auditing financial statements of the company and the Capital Group, the amount was PLN 133k plus VAT (22%), additionally, for the written study on the balance sheet effects of the acquisition of Artman SA, PLN 12k plus VAT (22%).

26. Corporate Governance Statement.

a) The Management Board of LPP SA declares that the Company and its authorities to October 2009 followed the rules of Good Practice Implemented by Companies listed in the Warsaw Stock Exchange, described in parts II, III and IV, with the exception of rules 7 and 8 of Part III entitled 'Good Practice of Supervisory Board Members', concerning the need for establishing an audit committee and the scope of tasks and the functioning of the committees of the Supervisory Board.

The Supervisory Board of LPP SA in accordance with internal regulations consisted of 6 members, which is close to the minimum amount required by law. All the functions were performed by the Supervisory Board as a whole. There were two independent members in the Management Board. Lack of audit committees did not have adverse effects on the functioning of the Supervisory Board.

During the fiscal year one member of the Supervisory Board (CR 52/2009) resigned. Since then, the Supervisory Board has consisted of the minimum number of members required by law, and tasks of the committees are performed by the Supervisory Board as a whole and consequently the company started to follow all the rules, without any exceptions, from parts II, III, IV of Good Practice Implemented by Companies listed in the Warsaw Stock Exchange.

Information on the principles of Corporate Governance are available on the Company's corporate website www.lpp.com.pl The Company does not practice any Corporate Governance rules beyond the requirements of the national law.

The Company and its authorities have also observed the principles of Good Practice Implemented by Companies listed in the Warsaw Stock Exchange, described in part I, with the exception of the AGM agenda transmission via the Internet and recording and publication it on the website.

Incidentally, in 2009, the Company did not observed the principle II.1, section 4) of Good Practice Implemented by Companies listed in the Warsaw Stock Exchange, it informed about it in the current report CR 28/2009.

b) Basic principles of the internal control and risk management systems adopted by the Company in relation to the process of preparation of financial statements and consolidated financial statements .

LPP SA has adapted to its needs and characteristics a well-functioning internal control system, which provides:

▪ completeness of the invoiced revenue,
▪ appropriate cost control,
▪ efficient use of resources and assets,
▪ accuracy and reliability of financial information disclosed in the financial statements and periodic reports,
▪ the adequate protection of sensitive information and preventing the uncontrolled outflow of information from the company,
▪ effective and quick identification of irregularities,
▪ identification of significant risks and appropriate responding to them.

Elements of the internal control system within the LPP Company include:

▪ control activities taken at all levels and in all cells of the Company, based on procedures (permits, authorizations, verifications, reconciliation, review of operational activities, distribution of duties), that help ensure compliance and guidelines for management of the Company, and at the same time enable to identify and take the necessary action to minimize errors and risks for the Company,
▪ Workflow Guide - records and documentation circulation proper control system (to ensure compliance of the account records with accounting evidence),
▪ suitably qualified staff carrying out inspections,
▪ distribution of duties excluding the possibility of performing the whole action of implementation and documenting of a business operation
by one employee,
▪ inventory manual, specifying the rules for the use, storage and inventory of assets,
▪ the balance sheet depreciation policy for fixed and
intangible assets,
▪ information system - accounts of the Company are conducted with help of the computerized Integrated Enterprise Management System AWEK at the Company's

headquarters, which provides credibility, reliability and accuracy of the processed information, the access to information resources is limited to AWEK system authorized personnel, only for their performance of duties,

▪ accounting policy, taking into account the principles of the International Accounting Standards and International Financial Reporting Standards (IAS/IFRS) and related interpretations published in the form of implementing regulations of the European Commission,

▪ communication system, which is conducive to the acquisition and exchange of information necessary for effective management and control of the Company.

In the process of preparing financial statements of the Company, both individual and consolidated, audit of the financial statements by an independent auditor is an essential element of internal control.

The appropriate auditor is appointed by the LPP Company's Supervisory Board. The tasks of the independent auditor are: half-year report review and annual reports audit, the regularity of their preparation and compliance with accounting rules control.

Two departments are responsible for the preparation of financial statements: accounting and financial departments, managed by the Chief Accountant and Chief Financial Officer. Before giving the financial statements to the independent auditor, CFO reviews them for completeness and accuracy of recognition of all economic events.

In LPP SA, semi-annual reviews of the strategy and business plans implementation take place. This is due to the cycles occurring in the clothing trade. After closing the half-year period, senior and middle management, with the help of finance department, review the Company's financial results. Operating performance of the Company, individual business units' or even individual stores', is analyzed each month. Internal control and related risk management in relation to financial reporting, are subject to the current interest of the Company's governing bodies. In LPP SA, business risk factors analysis is carried out. Management personnel also plays an important role here, as they are responsible for monitoring the activities of their departments, including the identification and assessment of risks associated with the process of preparing financial statements that are accurate, reliable and in accordance with the law.

c) Information on shareholders holding large blocks of the Company's shares, either directly or indirectly, the number of shares held by these entities, percentage share in share capital and resulting number of votes carried by these shares and their percentage share in the total vote at the General Meeting.

Shareholder	Number of shares held	Number of votes at the General Meeting of Shareholders	Share in the total vote at the General Meeting of Shareholders	Share in share capital
Marek Piechocki	324,390	1,024,390	32.52%	18.53%
Jerzy Lubianiec	226,338	926,338	29.40%	12.93%
Grangefont Limited London, UK	350,000	350,000	11.11%	20.00%

Other shareholders	849,549	849,549	26.97%	48.54%
TOTAL	1,750,277	3,150,277	100.00%	100.00%

d) Information on the holders of securities that give special control rights, limitations on voting rights, such as limitations on voting rights of the holders of a specified proportion or number of votes and limitation of property rights transfers.

Shareholders holding shares carrying over 15% of votes at the General Meeting, shall exercise only up to 15% of voting rights carried by their shares, regardless of the number of votes carried by the shares held. Two shareholders, controlling the Company for many years, Mr Jerzy Lubianiec and Mr Marek Piechocki, hold 175,000 series B preference shares each, and each share carries 5 votes at the General Meeting. In addition, the above-described statutory limitation on voting rights exercise only to 15% of voting rights at the General Meeting, regardless of the number of owned shares, does not concern shares of the above shareholders. The above statute notes give the two shareholders indicated above the dominant position.
Restrictions on transfer of ownership of securities concern registered and series I shares.
Disposal or pledge of registered shares requires the approval of the Company. The approval for disposal or pledge of the shares is given by the Supervisory Board in writing, on pain of nullity, within 14 days from the date of the application receipt. If the Company refuses to approve the sale, within 30 days it has to indicate a different buyer and determine the date and place of the payment. If the Company within the above time limit does not indicate another buyer, the shares may be sold without restriction then.
Series I shares that were issued in order to implement the Company's motivation scheme for the managerial personnel, may not be disposed of within two years.
This restriction is intended to bound the key personnel of the Company, by providing that people payments that are associated with the results of the Company.

e) Rules of appointment and dismissal of members of the Management Board, as well as the scope of their powers, in particular the right to decide on the issue or buy-back of shares.

The Management Board consists of two to five members, including the Chairman of the Management Board and from one to four Vice-Presidents of the Management Board. The number of members is determined by the Supervisory Board.
Members of the Board are appointment and dismissed by the Supervisory Board for the period of five years. Competence and operating principles of LPP SA Management Board are determined in the following documents:

- LPP SA Articles of Association (available on the Company's website)
- Management Board Regulations (available on the Company's website)
- Commercial Code

The Management Board deals with all matters that are not in the competence of other bodies of LPP SA.
The Management Board is not entitled to issue or buy back shares.

f) Amendments to the Issuer's Articles

The Company's Articles of Association shall only be amended by resolution of the General Meeting.

g) Functioning and competencies of the General Meeting of Shareholders, rights of shareholders and methods of their exercise

Convention of the General Meeting of Shareholders

1) The General Meeting of Shareholders may be convened as an annual or extraordinary meeting.
2) The General Meeting is held in Gdansk, Warsaw or Sopot, the venue is designated by the Board.

3) Annual General Meeting is held annually within six months after the fiscal year end.
4) Extraordinary General Meeting shall be convened by the Board on its own initiative, at the request of the Supervisory Board and at the request of shareholders representing one tenth of the capital, in writing.
5) The fact of the convening of the General Meeting and its venue and date are announced by the Board on the Company's website in accordance with the information transmission method pursuant to the regulations of public offering and terms and conditions of introducing financial instruments to organised trading system, and on public companies.

Competencies of the General Meeting

1) Review and approval of financial statements and Management Board reports on LPP SA operations in the previous year.
2) Decisions in respect of claims to make good any damage suffered through the formation of the company or exercise of management or supervision.
3) Adopting a resolution on the distribution of profit or offset of loss.
4) Granting a vote of acceptance to members of the company's authorities confirming the discharge of their duties,
5) Adopting a resolution on the issue of bonds, including convertible bonds.
6) Amendments to the Company's Articles of Association.
7) Adopting resolutions on the merger, the conversion of LPP SA, its dissolution and liquidation.
8) Adoption of resolutions concerning the sale and lease of companies and establishing the right of use.
9) Consideration and settlement of proposals submitted by the Supervisory Board.
10) Deciding on otherissues in competence of the General Meeting determined in the Commercial Code and the Articles of Association.

General Meeting Convention

1) The convention of the General Meeting is inaugurated by the Chairman of the Supervisory Board or a person authorized by him, and then they decree the election of Chairman of the General Meeting.
2) The person who inaugurates the General Meeting immediately starts the election of Chairman of the General Meeting, who directs the work of the GM and ensures efficient and proper conduct of the convention.
3) The General Meeting adopts only resolutions on matters included on the agenda.
4) Draft resolutions to be adopted by the General Meeting of Shareholders along with justification of the Management Board and opinion of the Supervisory Board are presented to the shareholders.
5) Resolutions of the General Meeting are included in minutes drawn up by a notary public.

Vote

1) Voting at the General Meeting is open. A confidential vote is ordered during the election and with regard to requests for the dismissal of members of the Company authorities or liquidators, their liability, as well as with respect to personal matters. Moreover, a confidential vote is ordered at the request of any shareholder or their representative.
2) The General Meeting may choose a three-person Scrutiny Committee, whose responsibility is to ensure the proper conduct of each vote, monitoring computer staff (in the case of voting with the use of electronic technology) and the verification and publication of results.
3) One share carries one vote at the General Meeting of Shareholders. In the case of series B priviliged shares, one share carries at the GM five votes.
4) The Chairman shall announce the results of the vote, which then are written in the minutes.

h) Composition of the Management and Supervisory Board and its changes during the last fiscal year,as well as description of the functioning of the Issuer's management, supervisory, or administrative bodies and their respective committees.

The Management Board of LPP SA

Members of the Management Board as at 31 December 2009:

- Marek Piechocki – President of the Management Board
- Dariusz Pachla – Vice-President of the Management Board
- Piotr Dyka- Vice-President of the Management Board
- Hubert Komorowski - Vice-President of the Management Board
- Jacek Kujawa- Vice-President of the Management Board

During the last fiscal year there have been changes in the composition of the Management Board, resulting from the resignation of its three members: Ms Alicja Milińska, Mr Aleksander Moroz, Mr Stanisław Dreliszak and the appointment of new members of the LPP SA Management Board: Mr Piotr Dyka, Mr Hubert Komorowski, Mr Jacek Kujawa (CR 44/2009, CR45/2009, CR 54/2009, CR 55/2009).

Competencies and operating principles of LPP SA Management Board are determined in the following documents:

- LPP SA Articles of Association (available on the Company's website)
- Management Board Regulations (available on the Company's website)
- Commercial Code

The Supervisory Board

Members of the Supervisory Board as at 31 December 2009:

- Jerzy Lubianiec - Chairman of the Supervisory Board
- Krzysztof Olszewski - Member of the Supervisory Board
- Wojciech Olejniczak - Member of the Supervisory Board
- Maciej Matusiak - Member of the Supervisory Board
- Krzysztof Fąferek - Member of the Supervisory Board

During the fiscal year there have been changes in the composition of the Supervisory Board resulting from the resignation of one of the Supervisory Board members - Mr Antoni Tymiński (CR 52/2009).

Competencies and operating principles of LPP SA Supervisory Board are determined in the following documents:

- LPP SA Articles of Association (available on the Company's website)
- Supervisory Board Regulations (available on the Company's website)
- Commercial Code

Marek Piechocki

President of the Management Board

Dariusz Pachla	*Piotr Dyka*	*Hubert Komorowski*	*Jacek Kujawa*
Vice-President of the Management Board	Vice-President of the Management Board	Vice-President of the Management Board	Vice-President of the Management Board

Gdansk, 15 April 2010

STATEMENT OF THE MANAGEMENT BOARD OF LPP SA

STATEMENT OF THE MANAGEMENT BOARD OF LPP SA

In line with the requirements of the Ordinance by the Minister of Finance of 19 February 2009 on current and interim information provided by issuers of securities, the Management Board of LPP SA hereby declares that:

- to the best of the Board's knowledge, the annual consolidated financial statement and comparative data has been prepared in line with accounting principles currently in effect and present a true and fair view of assets, financial standing, and financial result of LPP Capital Group,

- the annual consolidated report on the Issuer's operations presents a true and fair view of the development and achievements of LPP Capital Group, including an accurate description of risks and threats,

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

Marek Piechocki

President of the Management Board

Dariusz Pachla	*Piotr Dyka*	*Hubert Komorowski*	*Jacek Kujawa*
Vice-President of the Management Board	Vice-President of the Management Board	Vice-President of the Management Board	Vice-President of the Management Board

Gdansk,15 April 2010