CONSOLIDATED ANNUAL REPORT OF LPP S.A. CAPITAL GROUP FOR FY05

INCLUDING:

- LETTER FROM THE PRESIDENT OF THE MANAGEMENT BOARD
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- CONSOLIDATED FINANCIAL STATEMENT
- MANAGEMENT BOARD REPORT ON THE CAPITAL GROUP'S OPERATIONS
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April 2006

LETTER FROM THE PRESIDENT OF THE MANAGEMENT BOARD

Dear Shareholders,

2005 was yet another year of intensive growth for our Company and the entire Capital Group. It was the year that saw major increase of our trading power based on development of both brand store networks: Reserved and Cropp Town. As at the end of December, the total area of brand stores was approx. 95 thousand square metres – up by 48% vs. the previous year. In 2005, we also started to build our network of Cropp Town stores abroad.

Unfortunately, in 2005 our financial results were not as good as planned. We did not manage to achieve our goals. In spite of 25% growth in sales, net profit generated by the Capital Group totalled PLN 40m, down by 5% vs. the previous year. In my opinion, these results can be attributed to wrong decisions regarding the Reserved collection. Some of the Reserved clothes offered in 2005 did not sell well, as their style was apparently too daring for the market. We have always offered trendy clothing to our customers, but this time too many clothes were designed for those who like to stand out of the crowd and attract attention. It turned out that this group of customers is smaller in this region that we had expected. We have already taken action to modify our offer and balance the share of very trendy clothing in the collection as a whole.

In 2006, we want to increase our existing network from 202 to approx. 260 brand stores, at the same time increasing our total selling area to about 124 thousand square metres, i.e. up by 30%. New brand stores will be opened mainly abroad, in countries where we are currently running our business. The Russian market offers the greatest potential for growth; large investments related to construction of shopping malls are currently underway in Russia, and our brand stores are usually located in malls. We are planning to open 20 new brand stores in Russia in 2006.

I do hope that based on the future intensive development of our sales network and modification of our product portfolio in order to meet the market needs in a more precise way, we will be able to achieve the 2006 plans and increase the value of our business to the benefit of all our shareholders.

Marek Piechocki

President of the Management Board

SELECTED CONSOLIDATED FINANCIAL DATA FOR FY05-FY04

Selected financial data – consolidated statement

Selected financial data	FY05	FY04	FY05	FY05
	in PLN '000		in EUR '000	
Net revenues from sales of products, goods and materials	685,851	546,289	170,470	120,909
Operating profit (loss)	58,789	52,658	14,612	11,655
Profit (loss) before tax	52,105	52,671	12,951	11,658
Net profit (loss)	40,053	42,156	9,955	9,330
Net cash flow from operations	46,587	3,208	11,579	710
Net cash flow from investments	-92,904	-64,373	-23,091	-14,247
Net cash flow from financial activity	58,191	54,084	14,464	11,970
Total net cash flow	11,874	-7,081	2,951	-1,567
Total assets	434,736	311,457	112,632	76,356
Long-term payables	15,058	4,441	3,901	1,089
Short-term payables	186,216	115,067	48,245	28,210
Shareholders' equity	232,450	190,819	60,223	46,781
Share capital	3,407	3,407	883	835
Number of shares	1,703,500	1,703,500	1,703,500	1,703,500
Profit (loss) per ordinary share (in PLN/EURO)	23.51	24.75	5.84	5.48
Book value per share – BVPS (in PLN/EURO)	136.45	112.02	35.35	27.46

Profit per ordinary share (EPS) was calculated as net profit divided by the number of shares.
Book value per share (BVPS) was calculated as equity divided by the number of shares.

Marek Piechocki

President of the Management Board

Alicja Milińska	*Stanisław Dreliszak*	*Dariusz Pachla*
Vice President	*Vice President*	*Vice President*

CONSOLIDATED FINANCIAL STATEMENT OF LPP S.A.
For the fiscal year ended 31 December 2005

1. Consolidated balance sheet

Balance sheet	Notes	as at 2005-12-31	as at 2004-12-31
ASSETS			
Fixed assets		*195,431*	*137,353*
1. Tangible fixed assets (PP&E)	14.1.	175,138	116,605
2. Intangible assets	14.2.	14,436	13,644
3. Investments	14.3., 14.4.	876	894
4. Receivables		187	472
5. Deferred income tax assets	14.17.	4,356	4,176
6. Prepaid expenses	14.14.	438	1,562
	,	,	
Current assets		*239,305*	*174,104*
1. Inventories	14.5.	171,566	131,776
2. Trade receivables and other receivables	14.6.	37,653	24,547
3. Prepaid expenses	14.14.	2,604	2,211
3. Investments	14.3., 14.4.	116	78
5. Cash and cash equivalents	14.7.	27,366	15,492
	,	,	
TOTAL assets		*434,736*	*311,457*
LIABILITIES			
Shareholders' equity	*14.8.*	*232,450*	*190,819*
1. Share capital		3,407	3,407
2. Reserve capital		200,368	151,404
3. Retained profit/accumulated loss brought forward		-11,851	-6,141
4. Net profit/loss of the reported period		40,053	42,156
5. Revaluation reserve		1	1
		472	-8
Long-term payables		,	,
1. Bank credits and loans		*15,058*	*4,441*
2. Provisions	14.12.	11,000	2,331
3. Deferred income tax provision	14.9.	287	433
	14.17.	3,733	1,659
Short-term payables		38	18
1. Trade payables and other payables		,	,
2. Bank credits and loans		*186,216*	*115,067*
3. Income tax	14.13.	56,134	36,864
4. Provisions	14.12.	126,562	71,654
5. Special funds	14.17.	2,451	5,685
	14.9.	928	657
Accrued liabilities and deferred income		141	207
		,	,
TOTAL liabilities		*1,012*	*1,130*
Book value		232,450	190,819
Number of shares		1,703,500,	1,703,500,
Book value per share – BVPS (in PLN)		136.45	112.02

2. Consolidated profit and loss account

Profit and loss account	Notes	01/01/2005-31/12/2005	01/01/2004-31/12/2004
Revenues from sales	14.15.	685,851	546,289
Selling costs		311,624	251,198
Profit/loss on sales before tax		*374,227,*	*295,091,*
Other operating revenues	14.15.	6,029	7,332
Costs of sales		273,937	204,896
General administrative expenses		39,549	34,378
Other operating expenses	14.16.	7,981	10,491
Operating profit/loss		*58,789,*	*52,658,*
Financial revenues	14.15.	691	5,230
Financial expenses	14.16.	7,375	5,217
Profit/loss before tax		*52,105,*	*52,671,*
Taxes	14.17.	12,052,	10,515,
Net profit/ loss		***40,053***	***42,156***
Weighted average number of ordinary shares		1,703,500,	1,703,500,
Profit (loss) per ordinary share (in PLN)		23.51	24.75

3. Statement of changes in shareholders' equity

	Share capital	Reserve capital	Retained profit/accumulated loss brought forward	Net profit/loss of the reported period	Revaluation reserve	Foreign exchange differences (conversion of related parties)	TOTAL equity
as at 1 January 2004	3,407	118,152	28,289		1		149,849
Result of the first-time adoption of IAS/IFRS		-1,260	386				-874
- corrections of errors from previous years			-310				-310
as at 1 January 2004 (after transition)	3,407	116,892	28,365	0	1	0	148,665
Foreign exchange differences after conversion of related parties						-8	-8
Distribution of net profit		34,344	-34,338				6
Net profit for the fiscal year				42,156			42,156
as at 31 December 2004	3,407	151,236	-5,973	42,156	1	-8	190,819
- corrections of errors from previous years			48				48
as at 1 January 2005 (after transition)	3,407	151,236	36,231		1	-8	190,867
Foreign exchange differences after conversion of related parties						480	480
Distribution of FY04 net profit		44,772	-44,772				0
Distribution of retained earnings from previous years		3,310	-3,310				0
Cost of employee benefits – treasury shares		1,050					1,050
Net profit for the fiscal year				40,053			40,053
as at 31 December 2005	3,407	200,368	-11,851	40,053	1	472	232,450

4. Consolidated cash flow statement

Cash flow statement	01/01/2005-31/12/2005	01/01/2004-31/12/2004
A. Cash flow from operations – indirect method	,	,
I. Net profit (loss)	40,053	42,156
II. Total adjustments	6,534	-38,948
1. Amortisation and depreciation	30,779	19,160
2. Foreign exchange (gains) losses	1,229	-3,183
3. Interest and share in profits (dividends)	5,277	4,176
4. (Profit) loss from investments	636	2,522
5. Income tax paid	-13,727	-11,972
6. Income tax charged into result before tax	9,705	10,515
7. Change in provisions	144	65
8. Change in inventories	-40,076	-41,578
9. Change in receivables	-18,909	-1,908
10. Change in short-term payables, excluding credits and loans	29,005	-9,913
11. Change in prepaid expenses, accruals and deferred income	2,853	-5,540
12. Other adjustments	-382	-1,292
III. Net cash flow from operations (I+/-II)	46,587	3,208
B) Cash flow from investments	,	,
I. Inflows	2,214	960
1. Sale of intangible assets and tangible fixed assets	1,085	564
2. From financial assets, including:	84	40
a) in related parties	0	4
- sale of financial assets	0	4
b) in other entities	84	36
- sale of financial assets	47	,
- repayment of long-term loans granted	23	,
- interest	14	36
3. Other inflows from investments	1,045	356
II. Outflows	95,118	65,333
1. Acquisition of intangible assets and tangible fixed assets	95,018	64,796
2. On financial assets, including:	86	105
a) in related parties	86	86
- acquisition of financial assets	86	86
b) in other entities	0	19
- long-term loans granted	0	19
3. Other outflows on investments	14	432
III. Net cash flow from investments (I-II)	-92,904	-64,373
C. Cash flow from financial activity	,	,
I. Inflows	68,968	61,282
1. Credits and loans	67,816	57,679
2. Other financial inflows	1,152	3,603

II. Outflows	10,777	7,198
1. Repayment of credits and loans	5,132	3,222
2. Payments made under finance lease agreements	40	9
3. Interest	5,255	3,967
4. Other financial outflows	350	0
III. Net cash flow from financial activity (I-II)	58,191	54,084
D. Total net cash flow (A.III+/-B.III+/-C.III)	11,874	-7,081
E. Total cash flow balance, including:	11,874	-7,081
- change in cash – foreign exchange differences	-1,442	-1,301
F. Opening cash balance	15,492	22,573
G. Closing cash balance (F+/-D), including:	27,366	15,492
- restricted cash	156	222

5. Notes to the consolidated financial statement of LPP Capital Group for FY05

INTRODUCTION

1. General information

Name and registered office: GRUPA KAPITAŁOWA LPP (LPP Capital Group)
Parent company: LPP SPÓŁKA AKCYJNA
with its registered office in Gdańsk, Poland
ul. Łąkowa 39/44
ZIP code: 80-769

Core business:

1. wholesale sales of clothing, classified in item 51.42 Z of the Polish Classification of Economic Activities (PKD) as “wholesale sales of clothing and footwear”,

2. retail sales of clothing, classified in item 52.42 Z as “retail sales of clothing”.

Place of business

The Group is running its business in the following countries:

- Poland,
- Estonia,
- the Czech Republic,
- Lithuania,
- Latvia,
- Hungary,
- Russia,
- Ukraine.

Sector as classified by the Warsaw Stock Exchange:

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

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

Members of the Management Board:

- Marek Piechocki - President of the Management Board
- Dariusz Pachla - Vice President of the Management Board
- Alicja Milińska - Vice President of the Management Board
- Stanisław Dreliszak - Vice President of the Management Board

Members of the Supervisory Board:
- Jerzy Lubianiec - Chairman of the Supervisory Board
- Krzysztof - 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

3. Description of LPP Capital Group

LPP Capital Group (CG) is composed of:

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

There is no parent company of LPP S.A.

The complete list of Capital Group companies is presented below.

No.	Company name	Registered office	Date of taking control
1.	G&M Sp. z o.o.	Gdańsk, Poland	26.09.2001
2.	M&G Sp. z o.o.	Gdańsk, Poland	26.09.2001
3.	AKME Sp. z o.o.	Gdańsk, Poland	26.09.2001
4.	TORA Sp. z o.o.	Gdańsk, Poland	26.09.2001
5.	P&G Sp. z o.o.	Gdańsk, Poland	26.09.2001
6.	SL&DP Sp. z o.o.	Gdańsk, Poland	26.09.2001
7.	DP&SL Sp. z o.o.	Gdańsk, Poland	26.09.2001
8.	IL&DL Sp. z o.o.	Gdańsk, Poland	26.09.2001
9.	PL&GM Sp. z o.o.	Gdańsk, Poland	26.09.2001
10.	GM&PL Sp. z o.o.	Gdańsk, Poland	26.09.2001
11.	AMA Sp. z o.o.	Gdańsk, Poland	28.05.2002
12.	LIMA Sp. z o.o.	Gdańsk, Poland	22.07.2002
13.	LUMA Sp. z o.o.	Gdańsk, Poland	05.11.2002
14.	KAMA Sp. z o.o.	Gdańsk, Poland	29.10.2002
15.	KUMA Sp. z o.o.	Gdańsk, Poland	05.11.2002
16.	AMUL Sp. z o.o.	Gdańsk, Poland	29.10.2002
17.	AMUK Sp. z o.o.	Gdańsk, Poland	15.05.2003
18.	AMUR Sp. z o.o.	Gdańsk, Poland	09.05.2003
19	MM&MR Sp. z o.o.	Gdańsk, Poland	09.03.2005
20.	LPP Retail Estonia OU	Tallinn, Estonia	29.04.2002
21.	LPP Czech Republic s.r.o.	Prague, Czech Rep.	16.09.2002
22.	LPP Hungary Kft	Budapest, Hungary	18.10.2002
23.	LPP Retail Latvia Ltd	Riga, Latvia	30.09.2002
24.	UAB LPP	Vilnius, Lithuania	27.01.2003
25.	LPP Ukraina	Peremyshlany, Ukraine	23.07.2003
26.	RE Trading Zamknięta Spółka Akcyjna	Moscow, Russia	12.02.2004

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

Consolidated financial statement of the Capital Group covering the period between 1 January and 31 September 2005 covers individual results of LPP S.A. and results of foreign subsidiaries listed below:

- LPP Retail Estonia OU,
- LPP Czech Republic s.r.o.,
- LPP Hungary Kft,
- LPP Retail Latvia Ltd,
- UAB LPP,
- LPP Ukraina AT,
- ZAO Re Trading.

Polish subsidiaries of LPP S.A. were not consolidated as their financial data is immaterial. This is in line with the Accounting Policy employed by the Group.

Under this policy, a subsidiary or associate is not consolidated if results disclosed in the financial statement of this entity are immaterial 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 – 0.82 %
- in the Capital Group’s revenues from sales and financial revenues – 5.18 %

The fact that financial statements of these companies are not consolidated has no negative impact on true and fair presentation of the Capital Group’s assets, financial standing and financial result.

LPP S.A. is a company involved in the design and distribution of clothing in Poland and in Central and Eastern Europe. Consolidated Capital Group companies are involved in the distribution of goods under the Reserved and Cropp brands outside Poland. Clothing is basically the only product sold by the CG companies. The basic offer is supplemented by footwear, bags and accessories.

Designs of clothing are prepared in the design office located at the registered office of LPP S.A. in Gdańsk, and then sent to the purchasing department, which contracts the production of individual products in co-operation with production plants in Poland and abroad. Production in China is managed by the Company’s trading office in Shanghai.

The Capital Group also generates small revenues from sales of services (these include only 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: Journal of Laws of 2003 No. 76 item 694, as amended), as of 1 January 2005 the Capital Group shall present the consolidated financial statement prepared in line with the International Financial Reporting Standards (IFRS) and related interpretations published in the form of Regulations of the European Commission. In matters not covered by IFRS, provisions of Accounting Act shall be applied. Financial statements covering periods staring before 1 January 2005 were prepared based on the Accounting Act and its implementing provisions.

The Capital Group prepared its consolidated report for FY05 in line with the Ordinance by the Polish Minister of Finance of 19 October 2005 on current and interim information provided by issuers of securities. The report contains the Group's consolidated financial statement and the individual financial statement of LPP S.A. The report was drawn up as per IFRS.

This consolidated financial statement was drawn up in PLN '000.
Comparative data are presented for FY04.
The Capital Group adopted IFRS as of 1 January 2004.
When preparing the first statement as per IFRS, the Capital Group applied provisions of IFRS 1 "First-time adoption of international financial reporting standards".
As adjustment of comparative data was required, there are differences between amounts of certain comparative data disclosed in this report and their amount presented in the financial statement prepared and published earlier. These differences will be discussed later.
Key changes resulting from conversion of the financial statement for the comparative period were related to:

- method of measurement of items presented in foreign currencies (loans granted, interest on loans granted, receivables, liabilities, cash, bank credits),
- moment of recognition of revenue arising from the sale of goods,
- method of recognition of costs of share capital increase.

5. Declaration of compliance with IFRS

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

6. Going concern assumption

The consolidated financial statement for FY05 was drawn up based on the assumption that the Issuer and the Capital Group shall remain a going concern in the foreseeable future and that their respective businesses are not restricted to a considerable extent.
Based on the information available as at the date of preparation of the financial statement, the going concern assumption adopted in this financial statement is fully justified.

7. Date of approval for publication

This financial statement was approved for publication by the Management Board of the parent company of LPP Capital Group on 24 April 2006.

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 (i.e. approved for publication).

After the balance sheet date there were no events which could have material impact on the Capital Group's future financial results, nor any other events which should be taken into account or disclosed separately in this financial statement as per IFRS.

The Management Board is authorised to adjust the financial statement after its publication.

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

Tangible fixed assets (PP&E) and intangible assets
Fixed assets (PP&E) are initially carried at cost, increased by all costs directly related to the purchase and necessary to bring the asset to working condition for its intended use. Costs incurred after the date when the fixed assets was put into use, including costs of maintenance and repairs, are charged into the profit and loss account as they are incurred. Borrowing costs are not included in the carrying amount of fixed assets but recognised in the profit and loss account when incurred.
As at the balance sheet date, fixed assets are measured at cost less depreciation and impairment 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 verified 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 CG companies which could cause reduction of value of these assets down to below their current book value.
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.
As a result, LPP S.A. adopted the following rule: in each case when the initial carrying amount of a fixed asset or property right exceeds PLN 3500, 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 3500, two accounting methods have been adopted based on the materiality principle:

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

or

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

Foreign companies have also adopted this principle; however the adopted threshold amounts are based on their respective local regulations (which are similar in different countries).

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

- 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.

This situation has occurred twice so far and was related to:

- purchase of a large set of computer hardware for the implementation of the Company's new IT system,
- outlays made by Capital Group companies related to investments into construction and furnishing of new Reserved and Cropp brand stores – implementation of a new plan of brand stores layout and design.

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

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

Long-term investments in the CG include:

- shares held by LPP S.A. in Polish subsidiaries – measured at cost less impairment write-downs,
- long-term loans granted – measured as at the balance sheet date at depreciated cost estimated based on effective interest method, less impairment write-downs.

Long-term prepaid expenses include:

- deferred income tax assets – re-measured 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 and Cropp collections are measured at weighed average prices.

For trading commodities from other collections the FIFO method is employed.

Trading commodities in bonded warehouses are measured at cost, including their purchase price and costs 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 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 (in the case of foreign companies – selling rate published by banks with which these companies usually co-operate (i.e. banks with the highest volume of transactions with the company) or average exchange rate of the central bank).

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

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.
Revaluation write-downs of receivables are made based on the type of receivables:

- claimed receivables (amounts claimed in court and amounts due from debtors in the process of liquidation or filing for bankruptcy) – in the total amount receivable,
- doubtful receivables from a large group of small customers of underwear (overdue more than 6 months) – 30% of the amount receivable,
- doubtful receivables from other customers (overdue more than 6 months) – financial standing of the debtor is subject to detailed analysis and if there is any reasonable doubt that the amount may be irrecoverable, a write-down is made for 100% of the amount receivable,

- other receivables – write-downs are made based on a case-by-case analysis and assessment of the situation and risk of potential loss.

Short-term investments
These include investment assets which are payable, mature or held for sale within 12 months after the balance sheet date, as well as cash.

Short-term investments are measured as at the balance sheet date based on the following principles:

- long-term loans granted – at depreciated cost estimated based on effective interest rate,
- local cash in hand – at nominal value,
- cash in foreign currencies at the currency purchase rate adopted on this day by local banks with which these companies usually co-operate (i.e. banks with the highest volume of transactions with the company).

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

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

Reserve capital
The amount presented under Reserve Capital includes:
- share premium – issue of shares at the price in excess of their nominal value less costs of issue,
- profits brought forward from previous years, based on decisions of General Meetings of Shareholders.
- amounts of share-based payments made in respect of certain persons under the incentive scheme.

Profit/loss from previous years (Retained profit/accumulated loss brought forward)

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 related to previous years, resulting from fundamental errors or changes in accounting principles.

Liabilities

Trade payables with maturity date usually from 30 to 90 days are recognised and disclosed at amounts initially invoiced.

Taking into account 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.
Financial payables are measured at amortised cost.

Provisions
Provisions are made for deferred income tax and employee benefits.
Provisions for employee benefits include:

- provision for holiday leaves not taken
- provision for future retirement benefits.

Provision for future retirement benefits is measured individually by Capital Group companies, using 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 correction of the estimated cost of these returns. Based on to-date experience, the ratio of product return has been estimated against sales volume. It was assumed that the majority of product returns occur within the first quarter following the purchase. 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.

Borrowing costs

Borrowing costs are recognised by the Capital Group as set out in IAS 23, i.e. charged immediately to costs in the period in which they were incurred.

Transactions in foreign currencies

Functional currency in LPP Capital Group is the Polish zloty (PLN).

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

- purchase or selling rate used by the Company's bank – in the case of purchase or sale of foreign currencies and repayment of receivables or payables,
- average exchange rate set by the central bank for this currency as at the invoice date or specified in the respective customs document.

The following items 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.

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 the parent company in this period. The Group does not present diluted earnings/loss per share as ordinary shares are not diluted.

Share-based payment

LPP S.A. implemented an incentive scheme, under which the Supervisory Board could grant a specific number of shares to eligible persons. Terms and conditions of the scheme were specified in the Rules of acquisition of series F shares adopted by the Supervisory Board on 15 February 1999 and published in the Prospectus approved by the Polish Securities and Exchange Commission on 15 November 2000. As the Supervisory Board is under no obligation to grant all shares covered by the incentive scheme, and the group of eligible persons is not closed, it was assumed that the share grant date shall be the date of a resolution adopted by the Supervisory Board to granting shares covered by the scheme to eligible persons.
In line with IFRS 2 paragraph 14, costs of share-based payments are charged as at the date when shares are granted by the Supervisory Board, as this payment is not related to work performed by eligible persons in the future.
Under IFRS 2 paragraph 59, the Company did not apply the provisions of IFRS 2 retrospectively to share-based payment transactions granted to eligible persons, which were settled before 1 January 2005. Adoption of IFRS 2 to share-based payments made to eligible persons in 2004 would result in the increase the retained earnings by PLN 2,410k and reduction of the FY04 financial result by the same amount in the comparative balance sheet drawn up as at 31 December 2004.
In December 2005, the Supervisory Board granted rights to 1,320 shares to 25 eligible persons, in line with the Rules of acquisition of series F shares. All shares were taken hold of in the same month, which increased costs of employee remuneration by PLN 1,050k, as per IFRS 2.

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 eight years ago or earlier, and the corresponding earnings had been distributed before this financial statement was drawn up. In addition, it is not clear whether such disclosure of the hyperinflationary restatement has any effects under provisions of the Code of Commercial Companies, as regards e.g. the amount of dividend to be paid out, amount of payments on account of dividends, or conditions which require adoption of a resolution on the entity's remaining a going concern. Therefore, the Management Board is of the opinion that direct disclosure of this restatement in the balance sheet drawn up as at 31 December 2005 could be misleading for users of this financial statement, and decided to present relevant amounts, ratios, and conversion methods related to the hyperinflationary restatement in Note 14.8 to the financial statement.

Financial statements of LPP Capital Group are 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 date.

10. Financial risk management

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

a) currency risks

On-going analyses of USD and Euro exchange rates (i.e. currencies used in settlements with suppliers and foreign customers) and factors with potential impact on these exchange rates justify the assumption that the Capital Group's business will not be disrupted.

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. About 10% of goods per year will be purchased in Poland, where settlements with manufacturers are in PLN.

Another area where costs may be affected by foreign exchange rates (EURO exchange rates in particular) is related to retail lease agreements. Currency exchange rates determine the amount of rent paid by the Capital Group companies under these agreements for the majority of leased stores where the clothing is sold. The Management Board is of the opinion that changes in retail lease costs caused by changes in Euro exchange rates will not result in significant increase of total costs in this area, just as in the case of product prices.

b) interest rate risks

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

Fair value risk related to financial assets with fixed interest rate is insignificant and applies only to loans granted by LPP S.A. to Polish third-party entities (not related parties) in the total amount of PLN 273k.

c) credit risk

Credit risk is related mainly to trade receivables, in the amount disclosed in the balance sheet, as well as guarantees granted to third parties.

The maximum credit risk is reflected by the carrying amount of loans and receivables.

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

Customer	share of receivables (%) in total amount of receivables
Customer 1	13%
Customer 2	8%
Other with debts representing less than 5% in the total amount of receivables	79%
Total net trade receivables	100%

The total amount of bank guarantees granted at the request and on the responsibility of LPP S.A. as at 31 December 2005 was PLN 54,229.9k, of which:

a) guarantees granted to secure lease agreements concluded by LPP S.A. – PLN 6,811.9k
b) guarantees granted to secure lease agreements concluded by consolidated related parties – PLN 27,858.5k
c) guarantees granted to secure lease agreements concluded by non-consolidated related parties – PLN 14,652.5k
d) guarantees granted to secure agreements concluded by third parties – PLN 395.1k

Guarantees granted by the Company amounted to PLN 4,512k.

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

11. Critical accounting estimates and judgments

Estimates determining amounts disclosed in the financial statement refer to:

- estimated economic useful life of property, plant and equipment,
- percentage ratio used to determine the amount of future returns of goods sold in the reporting period,
- assets revaluation write-downs,
- discount rate for the estimated increase in salaries and actuarial assumptions used to calculate the amount of provisions for retirement benefits,
- future tax results taken into account when calculating deferred income tax assets,
- residual value of property, plant and equipment as well as intangible assets.

The methodology employed by the Capital Group 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 – one change: estimated useful life of the goods sorting system was extended by one year,
- sales adjustment ratio related to returns of goods made in the next reporting period.

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 (with the exception of net profit) 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:
- share capital;
- other equity;
- profit (loss) brought forward from previous years;
- net financial result;
- foreign exchange differences, including in particular foreign exchange differences resulting from different methods of conversion of net financial result and balance sheet into PLN.

The method of full consolidation was adopted.
Adjustments and non-consolidation:
- 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 and statistical foreign exchange differences as at the balance sheet date.

13. Impact of changes in accounting principles on the financial result and share capital

As the accounting principles were changed as a result of transition to IFRS, relevant conversions of comparative data presented in this financial statement were made. Reconciliation of discrepancies in comparative data as at 31 December 2004 covers their impact on the equity and financial result and is presented in the table below.

in PLN '000

	equity as at 31 December 2004	net profit for the period 01.01-31.12.2004
Before conversion	192,013	42,686
• increase:	209	184
- foreign exchange differences (conversion of foreign subsidiary)	209	
- costs of capital increase		184
• decrease:	1,418	729

- valuation of foreign currencies	447	447
- change of revenue recognition date	282	282
- costs of capital increase	689	
After change of accounting policies following transition to IAS/IFRS	190,804	42,141
other changes	15	15
after conversion	190,819	42,156

13.1 Measurement of items expressed in foreign currencies

Under previously employed principles of valuation of items expressed in foreign currencies as at the balance sheet date, assets and liabilities were valued at the average exchange rate published by central banks in respective countries as at this day.
Under IAS 21, valuation of foreign currency items as at the balance sheet date is based on spot exchange rate.
In practice, individual items are converted as follows:

a) 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.

b) non-monetary items – at the historical exchange rate as at the date of transaction.

13.2. Revenues from sales

Changed approach in defining the revenue recognition date results from provisions of IAS 18.
Under principles employed previously, revenue was recognised when the relevant invoice was issued.
Now, revenue is recognised when risks and rewards of ownership are transferred to the buyer. To define this moment, terms and conditions of individual deliveries are analysed.
In addition, to ensure accurate determination of revenues from sales, product returns by customers are also analysed.
Based on the Group's to-date experience, each company estimated the rate of product return against sales volume. When making these estimates it was assumed that the majority of products are returned in the first quarter (season) following the purchase.

13.3. Capital increase costs

As the method of calculation and presentation of share issue costs was changed, the Group also converted the comparative data related to costs of share issue from previous years, published previously in the balance sheet under prepaid expenses, settled over time and charged to financial result. This situation occurred only in the parent company.
Following the conversion of comparative data for the period between 1 January 2004 and 31 December 2004, these costs were recognised as reduction of reserve capital from share premium.

Marek Piechocki

President of the Management Board

Alicja Milińska	*Stanisław Dreliszak*	*Dariusz Pachla*
Vice President	*Vice President*	*Vice President*

NOTES TO THE FINANCIAL STATEMENT

14. Notes to the financial statement

14.1 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: 5 - 33%,
- plant and machinery: 7 - 50%
- transport vehicles: 14 - 33%,
- other tangible fixed assets: 14 - 50%.

The economic useful life of PP&E is reviewed on an annual basis.
The amount of revaluation write-downs of tangible assets charged into costs of the reporting period was PLN 806k. In addition, write-downs of PLN 43k made previously were reversed in the reporting period, as economic benefits resulting from disposal of fixed assets were higher that assumed.

Compensations related to tangible fixed assets, received by the Group in 2005, amounted to PLN 239k and resulted mainly from vehicle-related damage.

The Group has no PP&E which is temporarily out of use.

Property, plant and equipment used by the Group is fully depreciated. Its initial carrying amount is PLN 4,760k.

As at 31 December 2005, the Group was under no contractual obligation to acquire any tangible fixed assets.

As at 31 December 2005, the Group had no tangible fixed assets held for sale or discontinued operations.

The Company has no information on the fair value of property plant and equipment currently in use and is under no obligation to disclose this data.

CHANGES IN PROPERTY, PLANT AND EQUIPMENT (by type) as at 31-12-2005 in PLN '000

	land	buildings, facilities and civil- and hydro-engineering structures	plant and machinery	transport vehicles	other PP&E	PP&E under construction	payments on account of PP&E	Total PP&E
1) opening balance of PP&E before tax	1,117	81,723	17,974	2,609	8,681	4,837	664	116,605
- foreign exchange differences		19,670	8,298	1,711	2,165	-33	-136	31,675
- increase	10,721	51,770	16,405	999	11,075	68,351	1,283	160,603
- decrease	0	3,246	926	517	365	69,032	1,639	75,725
2) closing balance of PP&E before tax	11,838	14,9917	41,751	4,802	21,556	4,123	172	234,158
3) opening balance accumulated depreciation	0	19,176	8,794	1,754	2,267	0	0	31,991
- depreciation	0	16,768	7,520	718	3,080	0		28,086
- decrease	0	1,382	608	424	209	0	0	2,623
4) closing balance accumulated depreciation	0	34,562	15,706	2,048	5,138	0	0	57,454
5) opening balance impairment write-downs	0	1,196	0	0	0	0	0	1,196
- increase	0	806	0	0	0	0	0	806
- decrease	0	436	0	0	0	0	0	436
6) closing balance impairment write-downs	0	1,566	0	0	0	0	0	1,566
Total closing balance of PP&E, net of tax	11,838	113,789	26,045	2,754	16,418	4,123	172	175,138

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

CHANGES IN PROPERTY, PLANT AND EQUIPMENT (by type) as at 31-12-2004 in PLN '000

	land	buildings, facilities and civil- and hydro-engineering structures	plant and machinery	transport vehicles	other PP&E	PP&E under construction	payments on account of PP&E	Total PP&E
1) opening balance of PP&E before tax	1,117	67,398	17,009	3,728	3,617	1,290	366	94,252
- increase	0	34,554	10,081	1,429	7,593	32,336	1,301	87,294
- decrease	0	1,023	474	798	239	28,789	1,003	32,326
2) closing balance of PP&E before tax	1,117	100,929	26,616	4,359	10,971	4,837	664	149,493
3) opening balance accumulated depreciation	0	9,470	4,330	1,830	1,064			16,694
- depreciation	0	9,987	4,633	722	1,313			16,655
- decrease	0	447	321	802	87			1,657
4) closing balance accumulated depreciation	0	19,010	8,642	1,705	2,290			31,647
5) opening balance impairment write-downs	0	0				36		36
- increase	0	1,546						1,546
- decrease	0	350				36		386
6) closing balance impairment write-downs	0	1,196				0		1,196
Total closing balance of PP&E, net of tax	1,117	81,723	17,974	2,609	8,681	4,837	664	116,605

Impairment write-downs – items in the P&L account	amount
- increase – "Revaluation of non-financial assets"	1,546
- reversal – "Other operating revenues"	386

14.2 Intangible assets

The Group has intangible assets constructed in the Capital Group companies. They include development works amounting to PLN 271k net of tax as at the balance sheet date.
There is no goodwill, i.e. surplus of price paid for shares over the value of acquired net assets of each subsidiary, established as at the date of taking control.
The Group records no intangible assets with unspecified useful life.

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

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

The Group reviews its intangible assets for potential impairment on an annual basis. No impairment of intangible assets was identified in 2004 or 2005.

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

- costs of sales – PLN 291 k
- general administrative expenses – PLN 2,205 k.

An important item of intangible assets is the computer software Retek, used as a sales support and goods management tool, compatible with the FK software. As at 31 December 2005, the carrying value of this software was PLN 9,162k. Its useful life is estimated at 5.5 years as of the balance sheet date.

As at 31 December 2005, the Group was under no contractual obligation to acquire any intangible assets.

In the reporting period from 1 January to 31 December 2005, the Group made no outlays on R&D works.

CHANGES IN INTANGIBLE ASSETS (by types) in the period from 1-01-2005 to 31-12-2005

in PLN '000

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

CHANGES IN INTANGIBLE ASSETS (by types) in the period from 01-01-2004 to 31-12-2004

in PLN '000

	costs of completed development works	acquired patents, licenses and similar rights, including: total	software	intangible assets in progress	payments on account of intangible assets	other intangible assets	total
a) opening balance intangible assets before tax		5,752	5,591	4,902	3,326	23	14,003
- increase	443	10,323	10,185	5,840		125	16,731
- decrease		15	14	8,988	3,326		12,329
b) closing balance intangible assets before tax	443	16,060	15,762	1,754	-	148	18,405
c) opening balance accumulated amortisation		2,707	2,618	-	-	5	2,712
- planned amortisation write-offs	25	2,018	1,988	-		20	2,063
- decrease		14	14				14
d) closing balance accumulated amortisation	25	4,711	4,592	-	-	25	4,761
Total closing balance intangible assets, net of tax	418	11,349	11,170	1,754	-	123	13,644

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

14.3 Investments

Investments include:
- shares held by the parent company in Polish non-consolidated subsidiaries,
- loans granted to third parties.

Loans granted are considered financial instruments and described in Note 14.4 below.
Shares in subsidiaries are measured at cost less impairment write-downs. Results of analysis carried out as at the balance sheet date show that impairment write-downs of shares held by the Capital Group are not necessary.
Changes in shares in subsidiaries in 2005 resulting from increase in the capital of existing companies and establishment of new companies are presented in the table below:

in PLN '000

CHANGE IN THE VALUE OF SHARES IN POLISH SUBSIDIARIES	31.12.2005	31.12.2004
1) opening balance	611	401
2) increase	107	210
3) closing balance	718	611

14.4 Financial instruments measured as per IAS 39

Financial instruments recognised by the Capital Group include:
- loans granted,
- bank fixed-term deposits,
- receivables and payables,
- borrowings (credits).

The total amount of loans granted by the Capital Group as at 31 December 2005 is PLN 273k and is related to a loan granted to a customer of the parent company. Under the agreement, interest (6% p.a.) and instalments of the principal amount are to be repaid in equal monthly instalments. The last instalment with interest is to be repaid on 31 March 2008.

Given their specific nature (no defined purpose of deposited funds), fixed-term deposits are classified by the Company as financial assets held for trading and carried at fair value in the balance sheet. Taking into account short maturity of bank deposits and associated insignificant credit risk and interest rate risk, the nominal value of bank deposits is considered a sufficient approximation of fair value.
Changes in loans granted and bank fixed-term deposits in the period from 1 January to 31 December 2005 are presented in the table below.

in PLN '000

CHANGE IN FINANCIAL INVESTMENTS	loans granted		bank fixed-term deposits	
	2005	2004	2005	2004
opening balance	339	581	3,863	7,832
1) increase	15	48	13,619	17,407
- loan granted	0	19		
- interest accrued	15	29		
- deposit established			13,619	17,407
2) decrease	81	290	5,520	21,376
- loans repaid	68	254		
- interest repaid	13	36		
- deposits closed (reversed)			5,520	21,376
closing balance	273	339	11,962	3,863

Trade receivables and payables 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 valuation method set out in IAS 39 based on discounting of these receivables.
Detailed information on receivables and payables is presented in the following sections.

According to the Group, fair value of trade payables and receivables as well as bank deposits and credits is not materially different from the carrying amount disclosed in the balance sheet. As an active market does not exist, we did not estimate fair value of loans granted, which (given the adoption of fixed interest rate) may be different from the carrying amount calculated based on amortised cost.

14.5 Inventories

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

in PLN '000

INVENTORIES	31.12.2005	31.12.2004
1) materials	2 651	2 317
2) commodities	168 306	128 484
3) payments on account of deliveries	609	975
TOTAL	171 566	131 776

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

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

INVENTORIES REVALUATION WRITE-DOWN	31.12.2005	31.12.2004
Opening balance inventories revaluation write-down	1,794	1,214
Inventories revaluation write-downs – increase recognised in the reporting period under operating expenses in the P&L account	524	1,291
Inventories revaluation write-downs – decrease	1,589	711

recognised in the reporting period under operating revenues in the P&L account		
Closing balance inventories revaluation write-down	729	1,794

Trading commodities whose trading and useful value is impaired are written down by the Group. As at each balance sheet date, the inventory of trading goods is reviewed in detail to determine estimated probable loss on their sale. In line with the policy adopted by the Group, only the difference between amounts of write-downs made as at the current and previous balance sheet date is posted. Positive difference is charged into expenses of the period, while negative difference increases other operating revenues.

14.6 Trade receivables and other 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	31.12.2005	31.12.2004
1) from related parties	242	40
- trade receivables	242	40
2) from other entities	37,411	24,507
- trade receivables	28,848	21,239
- taxes, subsidies, customs duties and social security, health insurance and other benefits	2,394	
- other	6,169	3,268
TOTAL	37,653	24,547

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 5,653k.

14.7 Cash

in PLN '000

CASH	31.12.2005	31.12.2004
1) cash in hand and cash in banks	14,858	11,506
2) other cash	12,508	3,986
TOTAL	27,366	15,492

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.

in PLN '000

CASH – CURRENCY STRUCTURE	31.12.2005	31.12.2004
in the Polish currency	16,255	7,594
in foreign currencies (by currency and converted into PLN)	11,111	7,898
- USD	1,159	1,003
- RMB	133	
- EUR	96	215
- LVL	92	29
- EEK	1,519	864
- CZK	19,617	16,401
- UAH	403	370
- LTL	1,099	238
- HUF	62,509	39,042
- RUB	9,556	2,704
TOTAL	27,366	15,492

As at 31 December 2005, the Group had free borrowed funds of PLN 123,691k.

In the period from 1 January to 31 December 2005, the Group made non-cash settlements with its customers in the amount of PLN 1,484k (in the form of set-off of payables and receivables).

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

- as at 31 December 2005 – PLN 156k;
- as at 31 December 2004 – PLN 222k.

14.8 Shareholders' equity

Share capital
The Groups share capital is equal to share capital of the parent company LPP S.A.
As at 31 December 2005, the amount of share capital was PLN 3,407k Share capital is divided into 1,703,500 shares with nominal value PLN 2.00 per share.
In the period between 1 January 2003 and 31 December 2003, the number of shares did not change.

Ownership structure of share capital of LPP S.A. in 2005 (as at 31 December 2005):

Shareholder	Number of shares held	Number of votes at the General Meeting of Shareholders	Share in the total vote at the General Meeting of Shareholders	Share in share capital	Nominal value of shares
Marek Piechocki	281,876	981,876	31.64%	16.55%	563,752
Jerzy Lubianiec	276,039	976,039	31.45%	16.20%	552,078
Grangefont Limited, headquartered in London, UK	350,000	350,000	11.28%	20.55%	700,000
Other shareholders	795,585	795,585	25.6%	46.7%	1,591,170
TOTAL	1,703,500	3,103,500	100.0%	100.0%	3,407,000

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.

Reserve capital

The Capital Group's reserve capital was created from net profit (to be used to offset any potential loss), share issue premium, and as a result of measurement of share-based payments.

Part of the reserve capital created as a write-off from financial result of LPP S.A. was created on a statutory basis under art. 396 of the Code of Commercial Companies and may be used in the future only to offset a loss disclosed in the financial statement.

Structure of reserve capital is as follows:

in PLN '000

TYPE OF RESERVE CAPITAL	31 December 2005	31 December 2004
created on a statutory basis based on write-off from financial result	1,200	1,135
created as per Articles of Association based on write-off from financial result	126,916	79,067
created from share issue premium	71,202	71,202
created from share-based payments	1,050	
TOTAL	200,368	151,404

Equity of the parent company in the hyperinflationary period

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

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

in PLN '000

Years	Opening balance capital	Increase	Inflation	Days	Inflation rate	Capital after conversion
1990	0.2		585.8%	365	6.858	1.4
1991	1.4		70.3%	365	1.703	2.3
1992	2.3		43.0%	365	1.430	3.3
1993	3.3		35.3%	365	1.353	4.5
1994	4.5		32.2%	365	1.322	5.9
1995-01-01	5.9		27.8%	365	1.278	7.6
1995-04-12		700	27.8%	263	1.200	840
1995-10-24		800	27.8%	68	1.052	841
TOTAL 1995						1,689
1996-01-01	1,916[1)]		19.9%	365	1.199	2,298
1996-01-04		1,400[2)]	19.9%	362	1.197	1,676
TOTAL 1996						3,974

[1)] capital as at the end of 1995 + retained result for 1995
[2)] capital increase + share premium

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

14.9 Provisions

in PLN '000

CHANGE IN PROVISIONS	provision for retirement benefits and similar benefits	provision for holiday leaves not taken
As at 1 January 2005	258	725
- change in provisions in the period	29	176
As at 30 June 2005	287	901

Provision for retirement benefits
This provision is created only by the parent company. In other Capital Group companies, retirement severance payment are not paid. LPP S.A. determines the amount of this provision individually, based on actuarial methods.

Provision for holiday leaves not taken

The Group also creates provision for holiday leaves not taken, i.e. future payment of amounts due to employees for their on-going service.

14.10 Contingent liabilities

In May 2005, Capital Group companies used bank guarantees to secure payment of rent for leased retail premises where brand stores are located.

As at 31 December 2005, the total value of bank guarantees granted at the request and on the responsibility of LPP S.A. amounted to: PLN 54,229.9k, of which:

e) guarantees granted to secure lease agreements concluded by LPP S.A. – PLN 6,811.9k
f) guarantees granted to secure lease agreements concluded by consolidated related parties – PLN 27,858.5k
g) guarantees granted to secure lease agreements concluded by non-consolidated related parties – PLN 14,652.5k
h) guarantees granted to secure agreements concluded by third parties – PLN 395.1k

Guarantees issued by the parent company amounted to PLN 4.512k as at the balance sheet date; this amount has not changed vs. H1 FY05.

According to the Management Board of LPP S.A., 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.

14.11 Future liabilities arising from retail lease agreements

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

Total future minimum payments under lease agreements, estimated as at 30 June 2005, are as follows:
- payables with the maturity date within 12 months from the balance sheet date PLN 93,258 k
- payables with the maturity date from 12 months to 5 years from the balance sheet date PLN 267,267k
- payables with the maturity date over 5 years from the balance sheet date PLN 96,799k

Under expenses of the reporting period from 1 January to 31 December 2005, the amount of PLN 69,597k is disclosed, resulting from 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 of contingent rent was immaterial and represented only 3% of the total amount of rent. Retail lease agreements also contain adjustment clauses, linking the amount of rent with statistical price indices. Some agreements also contain clauses for possible renewal of the contract for another period, at the option of the lessee. As these retail lease agreements refer to premises located mainly in large shopping malls, they do not provide for the purchase of premises.

14.12 Borrowings (credits)

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

PLN '000

Bank	Use of credits as at 31 December 2005		Credit costs	Maturity date
	in PLN '000	currency in '000		
PKO BP S.A.	54,791		wibor 1 m + bank's margin	30-05-2008
BPH S.A.	35,637		wibor 1 m + bank's margin	31-07-2006
Fortis Bank Polska S.A.	21,193		wibor 1 m + bank's margin	26-01-2007
Raiffeisen Bank Polska S.A.	21,812	USD 300	wibor 1 m + bank's margin	30-04-2007
BRE BANK S.A.	0		libor 1m + bank's margin	20-01-2006
Bayeische Hypo und Vereinsbank AG		EUR 497		15-12-2006
HVB Praga	4,129	CZK 31,071	pribor + bank's margin	30-11-2006
TOTAL	137,562			

Bank credits amount to PLN 137,562, of which:

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

As at 31 December 2004, the Company's payables related to bank credits were as follows:

Bank	Use of credits as at 31 December 2004		Credit costs	Maturity date
	in PLN '000	currency in '000		
Kredyt Bank SA	1,214	EUR 293	libor + bank's margin	15-12-2007
Bank Millenium SA	1,156		wibor + bank's margin	30-09-2005
BRE Bank SA.	2,370	USD 774	libor + bank's margin	30-03-2006
Fortis Bank Polska SA	27,500		wibor + bank's margin	30-01-2006
BPH PBK SA	14,256		wibor + bank's margin	31-07-2005
Raiffeisen Bank Polska S.A.	917	USD 300	libor + bank's margin	30-04-2007
Raiffeisen Bank Polska S.A.	9,800		wibor + bank's margin	30-04-2007
Dresdner Bank Polska SA	10,272		wibor + bank's margin	10-05-2005
Kredyt Bank SA	2,331	EUR 561	libor + bank's margin	15-12-2007
HVB Praga	4,171	CZK 31,071	pribor + bank's margin	30-11-2005
TOTAL	73,985			

Bank credits amount to PLN 73.985, of which:

- long-term credits – PLN 2,331k
- short-term credits – PLN 71,654k

The amount of PLN 2,331k represents a long-term credit incurred in Kredyt Bank S.A.

Detailed data on bank credits is as follows:

Bank	Type of credit/line	Credit amount and currency		Security
		in '000	currency	
Millenium	Guarantee line	15 000	PLN	blank promissory note
PKO BP S.A.	multi-purpose multi currency credit line	100 000	PLN	blank promissory note
BPH S.A.	multi-purpose multi currency credit line	100 000	PLN	transfer of ownership rights to goods – PLN 3,700 k, assignment of rights arising from the insurance policy, blank promissory notes
Fortis Bank Polska S.A.	Revolving credit limit	100 000	PLN	blank promissory note
Raiffeisen Bank Polska S.A.	Multi-currency overdraft facility	100 000	PLN	blank promissory note
BRE BANK S.A.	Credit line – letters of credit	5 000	USD	pledge on goods – PLN 6,600 k, assignment of rights arising from the insurance policy, blank promissory note
Bayeische Hypo und Vereinsbank AG	Credit line*	1 930	EUR 500k	guarantee of BPH S.A.
HVB Praga	Credit line*	6 446	CZK 48,500k	guarantee of BPH S.A.
TOTAL		431 980		

* within the limit of a multi-purpose line in BPH SA

14.13 Trade and other payables

PLN '000

SHORT-TERM PAYABLES	31.12.2005	31.12.2004
1) in respect of subsidiaries	1,931	1,610
- trade receivables	1,931	1,610
2) in respect of other entities	183,216	112,594
- credits and loans, including:	126,562	71,654
- trade receivables	46,517	30,146
- taxes, customs duties, insurance and other benefits	7,051	10,182
- remuneration	1,088	528
- other	1,998	84
3) special funds	141	207
4) provisions	928	
TOTAL	186,216	114,410

14.14 Prepaid expenses

Long-term prepaid expenses as at 31 December 2005 amounted to PLN 438k, and the main item was prepaid rent for the lease of one of brand stores in Warsaw.
Short-term prepaid expenses as at 31 December 2005 totalled PLN 2,604k, of which:

- prepaid rent for the lease of retail premises, to be settled over the period of 12 months from the balance sheet date – PLN 1,406k,
- costs of customs guarantees and insurance – PLN 405k,
- prepaid commission on bank credits – PLN 143k,
- other items – PLN 650k.

14.15 Revenues

PLN '000

REVENUES	2005	2004
1) net revenues from sales of services	4,901	3,285
2) net revenues from sales of goods and materials	680,950	543,004
TOTAL	685,851	546,289

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

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

PLN '000

OTHER OPERATING REVENUES	2005	2004
1. Profit from sale of non-financial fixed assets	487	375
2. Subsidies	191	702
3. Other operating revenues	5,351	6,255
TOTAL	6,029	7,332

PLN '000

FINANCIAL REVENUES	2005	2004
1. Interest	663	701
2. Other, including:	28	4,529
- balance of foreign exchange differences		4,406
TOTAL	691	5,230

14.16 Expenses

PLN '000

EXPENSES BY TYPE	2005	2004
1) depreciation and amortisation	30,780	31,783
2) consumption of materials and energy	22,566	23,089
3) outsourced services	189,172	192,414
4) taxes and fees	3,045	3,280
5) remuneration	37,181	39,052
6) social security and other benefits, including:	9,066	9,732
- pension contribution	3,597	2,785
7) other expenses (by type)	23,805	24,073
TOTAL	315,615	323,423

PLN '000

OTHER OPERATING EXPENSES	2005	2004
1) Loss from sale of non-financial fixed assets	0	331
2) Revaluation of non-financial assets	2,704	5,174
3) Other	5,277	5,013
TOTAL	7,981	10,491

PLN '000

FINANCIAL EXPENSES	2005	2004
1) Interest	5,824	4,686
2) Other, including:	1,551	531
- commission on bank credits and guarantees	508	
- balance of foreign exchange differences	977	
TOTAL	7,375	5,217

14.17 Income tax

14.17.1 Current income tax

Reconciliation of differences between the amount of income tax disclosed in the profit and loss account and the amount calculated at the current tax rate on profit before tax is presented in the table below.

PLN '000

CURRENT INCOME TAX	2005	2004
Profit (loss) before tax	41,654	56,658
1) difference from conversion as per IAS	0	1,078
2) differences between profit (loss) before tax and income tax base (by type)	12,610	1,894
- non-taxable revenues	-7,138	-76
- costs other than tax-deductible costs	-18,244	-1,238
3) taxable income	54,262	59,731
- deductions	1,100	603
4) income tax base	53,162	59,128
5) income tax at 19%, 24%, 25% tax rate	10,148	11,260
6) increase, waivers, exemptions, deductions and reductions of tax		13
Current income tax disclosed in the P&L account	10,148	11,273

Adjustments of income tax from the previous year, recognised in the current reporting period, amounted to PLN 27k.

Tax paid by the Capital Group in the reporting period concerns the following companies:

- LPP S.A.– 19% tax rate,
- ZAO Re Trading (Russia) – 25% tax rate,
- UAB "LPP" (Lithuania) – 15% tax rate,
- LPP Ukraina AT – 24% tax rate.

14.17.2 Deferred tax

The Capital Group discloses its deferred tax in relation to temporary discrepancies (established and reversed). There are no other changes in deferred tax assets and provisions.

PLN '000

DEFERRED INCOME TAX ASSETS	31.12.2005	31.12.2004
surplus of book value over tax value of property, plant and equipment	1,342	702
foreign exchange differences – payables	513	1,074
trade receivables	564	712
measurement of inventories	88	313
revaluation of PP&E	288	227
unrealised profit margin	871	584
other temporary differences	690	564
TOTAL	4,356	4,176

PLN '000

PROVISION FOR DEFERRED INCOME TAX	31.12.2005	31.12.2004
surplus of tax value over book value of property, plant and equipment	137	64
amortisation of intangible assets	3,393	1,521
other temporary differences	203	74
TOTAL	3,733	1,659

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

14.17.3 Taxation of dividends paid to shareholders (if any)

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

- Polish shareholders – payment will be based on deduction of income tax at 19% tax rate,
- foreign shareholders – payment may be made based on deduction of income tax, depending on terms and conditions of the relevant double taxation agreement.

14.18. Related party transactions

The Group's related parties include:

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

14.18.1 Key personnel

The Capital Group's key management personnel include members of the Management and Supervisory Board of the parent company.

The amount of short-term employee benefits received by key management personnel for the period between 1 January and 31 December 2005 was PLN 1,056k. Compensation of each member of key management personnel was as follows:
President of the Management Board – PLN 348k,
Vice-President of the Management Board – PLN 232k,
Vice-President of the Management Board – PLN 232k,
Vice-President of the Management Board – PLN 232k,
Chairman of the Supervisory Board – PLN 12k (for services other than membership in the Supervisory Board).

In addition, key transactions concluded in 2005 by the Group with members of its key management personnel included:

- transaction with Marek Piechocki, President of the Management Board, totalling PLN 64k – related to lease of real estate by the company used for its trading business,
- transaction with Jerzy Lubianiec, Chairman of the Supervisory Board, totalling PLN 64k – related to lease of real estate by the company used for its trading business.

14.18.2 Related party transactions PLN '000

No.	RELATED PARTIES	payables as at 31 December 2005	receivables as at 31 December 2005	revenues in 2005	expenses in 2005
1.	Polish subsidiaries – total	1,920	242	93	35,511
TOTAL		1,920	242	93	35,511

PLN '000

No.	RELATED PARTIES	payables as at 30 December 2005	receivables as at 31 December 2005	revenues in 2004	expenses in 2004
1.	Polish subsidiaries – total	1,530	40	85	24,993
TOTAL		1,530	40	85	24,993

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

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

All related-party transactions were concluded at arm's length.
Revenues from Polish companies are generated from rental of offices where these companies run their businesses.
Expenses related to Polish subsidiaries are connected with lease of premises for Cropp Town and Reserved brand stores.
Payment terms adopted for subsidiaries are between 45 and 120 days.

14.19 Segment reporting

The Capital Group is running only one type of business (one core segment). Two geographical segments have been identified: business within and outside the European Union. Division into geographical segments was based on the criterion of location of the Group's assets. Currently, parameters of business operations in the latter segment are immaterial (only 2.8% of revenues of LPP Capital Group were generated outside the European Union), and therefore values for each segment are not presented separately.

Marek Piechocki

President of the Management Board

Alicja Milińska	*Stanisław Dreliszak*	*Dariusz Pachla*
Vice President	*Vice President*	*Vice President*

MANAGEMENT BOARD REPORT ON LPP S.A. CAPITAL GROUP OPERATIONS FOR 2005

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

LPP S.A. Capital Group is composed of 20 Polish companies and 7 foreign companies.
The financial statement of LPP S.A. Capital Group covering the period between 1 January and 31 December 2005 includes individual results of LPP S.A. for the said period and results of consolidated companies listed below (covered by the consolidated financial statement as at 31 December 2005):

1. LPP Retail Estonia OU;
2. LPP Czech Republic s.r.o.;
3. LPP Hungary Kft;
4. LPP Retail Latvia Ltd;
5. UAB LPP;
6. LPP Ukraina AT;
7. ZAO Re Trading

LPP S.A., 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 and Cropp brands outside Poland. Clothing is the core product sold by LPP Capital Group companies.
Designs of clothing are prepared in the design office located at the registered office of LPP S.A. in Gdańsk, and then sent to the purchasing department, which contracts the production of individual products in co-operation with production plants in Poland and abroad. Production in China is managed by the Company's trading office in Shanghai. Products sold by the Capital Group companies are classified mainly as clothing for teenagers, and include jackets, overcoats, sweaters, sweatshirts, trousers, dresses, tops, shirts, and underwear, as well as accessories such as hats, scarves, gloves, 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.

	2005		2004	
Source of revenues	PLN '000	share in sales volume %	PLN '000	share in sales volume %
Sales of trading commodities	680,951	99.3%	543,004	99.4%
Sales of services	4,901	0.7%	3,285	0.6%
Total	685,852	100.0%	546,289	100.0%

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

Channel of distribution	2005 PLN '000	2005 share in sales volume %	2004 PLN '000	2004 share in sales volume %
Reserved brand stores	491,892	71.7%	409,381	74.9%
Exports	18,015	2.6%	20,890	3.8%
Cropp brand stores + Cross wholesale customers	118,822	17.3%	44,291	8.1%
Other	57,123	8.3%	71,727	13.1%
Total	685,852	100.0%	546,289	100.0%

2. **Information on markets (both Polish and foreign) and change in sources of supply of production materials, goods and services, indicating dependence on one or several customers and suppliers; customers or suppliers with at least 10% share in total revenues from sales – their name, share in sales or supply volumes, and formal relations 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 1 January 2005 and 31 December 2005	revenues from sales between 1 January 2004 and 31 December 2004
LPP S.A.	Poland	583,387	483,555
LPP Retail Estonia OU	Estonia	15,623	11,527
LPP Retail Latvia Ltd	Latvia	12,977	8,038
LPP Retail Czech Republic s.r.o.	the Czech Republic	29,214	17,980
LPP Hungary Kft.	Hungary	9,689	7,897
UAB "LPP"	Lithuania	13,677	6,508
LPP Ukraina AT	Ukraine	10,778	7,147
ZAO "Re Trading"	Russia	10,506	3,637
Total:		685,851	546,289

Export sales. Export sales to entities other than Capital Group companies were run by LPP S.A. only and totalled PLN 18,014.9, i.e. 2.6% of total revenues. Presented below are the main directions of export sales of the Capital Group.

Country	2005		Country	2004	
	export amount in PLN ‘000	share in export %		export amount in PLN ‘000	share in export %
Slovakia	8,844	49,1%	Russia	11,488	55.0%
Russia	5,345	29,7%	the Czech Republic	4,542	21.7%
Ukraine	1,704	9,5%	Ukraine	2,713	13.0%
Lithuania	759	4,2%	Estonia	951	4.6%
the Czech Republic	436	2,4%	Latvia	622	3.0%
Latvia	362	2,0%	Lithuania	206	1.0%
Other	565	3,1%	Other	368	1.8%
Total	18,015	100,0%	Total	20,890	100.0%

Dependence of the Issuer's Capital Group on suppliers

Foreign companies of LPP S.A. Capital Group are supplied only by their parent company, i.e. LPP S.A.

Production companies – subcontractors of LPP S.A. are mainly based in China. Purchases made in China represented 69.0% of the total purchase volume. Additionally, the Company purchased goods from Polish producers (8.6%). The remaining volume of sales is divided between other European countries (7.0%) and other Asian countries (15.4%). Purchasing volumes 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.

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.

3. Basic economic and financial figures disclosed in the annual consolidated financial statement, including in particular description of factors and events, including extraordinary events, influencing the Capital Group’s business and its gains or losses during the fiscal year.

Key achievements of LPP S.A. Capital Group in 2005:

1. Revenues from sales of LPP S.A. Capital Group amounted to PLN 685.9m and were up by 25.5% vs. the previous year.

2. In 2005, LPP S.A. Capital Group generated net profit of PLN 40.1m, down by 5.0% vs. 2004 (PLN 42.2m).

3. In 2005, the total value of goods sold in retail distribution channels amounted to PLN 603m, of which 82% in Reserved brand stores and 18% in Cropp Town brand stores (compared to 489.6m in the previous year, of which 84% for Reserved, and 16% for

Cropp). Sales volumes of foreign subsidiaries totalled PLN 102.5m (of which PLN 99m for Reserved and PLN 3.5m for Cropp Town), i.e. up by 63% vs. 2004.

4. The total selling area in brand stores was up by approx. 31 thousand square meters (i.e. approx. 48%).The total retail selling area in the entire LPP S.A. Capital Group amounted to approx. 95 thousand square metres, of which approx. 26 thousand square metres outside Poland.

Results generated by LPP S.A. Capital Group depend primarily on the performance of two retail sales networks, with the major part of revenues and profits generated by Reserved stores. Development of sales networks is a tool used to boost revenues; however, regardless of the size of this network, achievement of plans depends to a great extent on a well-balanced product portfolio meeting demands of customers. Although sales network development plans were achieved, revenues and profits were lower than assumed. The main reason for this reduction was the fact that the Reserved collection (in particular the autumn-winter collection) failed to meet expectations of the market. As a result, revenues from sales generated per each unit of selling area in Poland were reduced (down by approx. 11% in comparable stores across the year). This reduction was particularly significant in Q4. Costs of operations, which depend largely on the total selling area (extended by 48% vs. 2004) were so high that the Capital Group increased its profit on sales only by approx. 9%, while increasing its revenues (up by over 25%) and maintaining gross profit margins.

Presented below are basic economic and financial figures.

	FY05	FY05	change
	in PLN ‘000	in PLN ‘000	%
net revenues from sales	685,851	546,289	25.5%
profit on sales before tax	374,227	295,091	26.8%
profit on sales	60,741	55,817	8.8%
operating profit	58,789	52,685,	11.6%
profit on ordinary operations	52,105	52,671	-1.1%
net profit	40,053	42,156	-5.0%
equity	232,450	190,819	21.8%
payables:	201,274	119,508	68.4%
long-term payables	15,058	4,441	239.1%
short-term payables	186,216	115,067	61.8%
bank credits	126,562	71,654	76.6%
in respect of suppliers	51,534	32,367	59.2%
fixed assets	195,431	137,353	42.3%
current assets	239,305	174,104	37.4%
inventories	171,566	131,776	30.2%
short-term receivables	37,653	24,547	53.4%

Increase in revenues from sales by 25.5% was achieved mainly based on development of the Reserved and Cropp Town network (increasing the total selling area by approx. 48%). Gross profit margin reached 54.6%, i.e. slightly higher vs. the previous year (54.0%)

Profit on sales was up by 8.8% and its growth rate was much lower than in the previous year, which was attributable mainly to the value of revenues from sales (lower than assumed) and increased costs (costs of sales were up by 33.7%, and general administrative expenses were up by 15.0%.)

Operating profit totalled PLN 58,789k (up by 11.6%), and the operating profit margin amounted to 8.6% (in 2004: PLN 52,685k and 9.6%, respectively).

Profit on ordinary operations was down by 1.1% vs. the previous year (PLN 52,671k) and totalled PLN 52,105k. To a considerable extent, this amount was determined by negative balance of foreign exchange differences (approx. PLN 977k) compared to positive balance in 2004 (PLN 3,934k).

Net profit generated in 2005 totalled PLN 40,053k, down by 5% against the previous year (PLN 42,156k). The resulting net profit margin amounted to 5.8% against 7.7% in the previous year.

Shareholder's equity of LPP S.A. was up by 21.8% in 2005. It was mainly caused by the transfer of generated profit to equity.

Balance of long-term payables was up almost four times, as the Company incurred a credit with the maturity of over one year for the purchase of land where a logistics centre is to be constructed.

Balance of short-term payables was up by over 61.8%. It was caused by increase in debt under bank credits (up by nearly 76.6%) at the end of 2005, to be used to finance current operations. At the same time, short-terms payables in respect of suppliers were up by 59.2%. This amount was determined by a particularly low level of payables in the previous year, which in turn was caused by factors such as movements in purchases in view of Poland's joining the European Union.

In the reporting period, the balance of fixed assets was up by 42.3% as a result of large investments, mainly capital expenditure in Reserved and Cropp Town brand stores.

Current assets were up by 37.4% against the end of 2004. It was mainly caused by increase in short-term receivables – up by 53.4%, and inventories – up by 30.2%, i.e. slightly higher that increase in sales volumes.

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

a) profitability ratios

Values of profitability ratios, presented in the table below, result directly from factors described above, which determine value of each category of profit.
Profitability ratios of the Capital Group were at satisfactory levels.
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 (ROS) – 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.

Ratio	2005	2004	change
	%	%	%
gross profit margin on sales	54.6%	54.0%	1.0%
operating profit margin	8.6%	9.6%	-11.1%
net profit margin (ROS)	5.8%	7.7%	-24.3%
Return on Assets (ROA)	10.7%	13.3%	-19.3%
Return on Equity (ROE)	18.9%	25.4%	-25.5%

b) liquidity ratios

Liquidity ratios presented below were slightly worse compared to 2004, but they remain at safe levels. LPP S.A. Capital Group takes actions to improve mainly the inventory turnover ratio.

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 in inventory) – 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 in receivables) – 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 in payables) – average trade payables divided by costs of goods and products sold and multiplied by the number of days in a given period

Ratio	2005	2004	change
			%
liquidity ratio I (current ratio)	1.3	1.5	-15.1%
liquidity ratio II (quick ratio)	0.4	0.4	-1.1%
inventory turnover (days in inventory)	175	159	10.2%
days in receivables	16	16	2.0%
days in trade payables	48	30	61.5%

c) management ratios (solvency ratios)

The Group's fixed assets to equity ratio is lower than the same ratio achieved by the parent company (increase in fixed assets compared to decrease of equity caused by losses generated by foreign companies). Other management ratios are comparable to those generated by LPP S.A.
Management ratios (solvency ratios) have been calculated as follows:

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

Ratio	2005 %	2004 %	change %
fixed assets to equity ratio	118.9%	138.9%	-14.4%
total debt	46.3%	38.4%	20.7%
short-term debt	42.8%	36.9%	15.9%
long-term debt	3.46%	1.43%	142.9%

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

In 2005, the Capital Group companies concluded the following material contracts:

- Contract for insurance guarantees (related to customs payables) within a specified guarantee limit concluded with TUiR "Warta" S.A. on 3 February 2005, valid from 26 February 2005 to 25 February 2006. The guarantee limit amounts to PLN 18 million.
- Insurance contract of 15 October 2005, valid until 14 October 2006, concluded with Allianz Polska S.A. in Warsaw. The policy covers insurance of all assets of LPP S.A., including brand stores.
- In 2005, the Capital Group companies concluded 68 new lease agreements with distributors of retail premises. These agreements are related to lease of premises where the Reserved and Cropp clothing is sold.
- In 2005, the Company concluded new credit agreements and annexes amending credit agreements already in place. Details on these contracts were published in current reports. A list of credit agreements was presented in Notes to the financial statement (section 13.12).

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 description of the its major local and foreign investments (securities, financial instruments, intangible assets and real estate), including capital expenditure outside the Group of related parties and methods of their financing.

Investments made by the LPP S.A. Capital Group are related mainly to related parties. The total value of shares in non-consolidated related parties amounts to PLN 718k. In addition, loans granted by LPP Capital Group to third parties amount to PLN 273k.

6. Related-party transactions – if the individual or total value of transactions concluded with the related party within 12 months exceeds the equivalent of EURO 500,000 in PLN.

The total value of related-party transactions exceeded the equivalent of 500,000 EURO in the following cases:

a. Transactions of sale of trading commodities to LPP Retail Czech Republic for resale in Reserved stores in the Czech Republic. The total value of these sales in 2005 was PLN 16,844k.

b. Transactions of sale of trading commodities to LPP Retail Latvia LTD for resale in Reserved stores in Latvia. The total value of these sales in 2005 was PLN 6,803k.

c. Transactions of sale of trading commodities to LPP Retail Estonia UAB for resale in Reserved stores in Estonia. The total value of these sales in 2005 was PLN 8,261k.

d. Transactions of sale of trading commodities to LPP Hungary Kft. for resale in Reserved stores in Hungary. The total value of these sales in 2005 was PLN 4,990k.

e. Transactions of sale of trading commodities to UAB "LPP" Lithuania for resale in Reserved stores in Lithuania. The total value of these sales in 2005 was PLN 8,052k.

f. Transactions of sale of trading commodities to "LPP Ukraina" AT for resale in Reserved stores in Ukraine. The total value of these sales in 2005 was PLN 5,532k.

g. Transactions of sale of trading commodities to "ZAO Re Trading" for resale in Reserved stores in Russia. The total value of these sales in 2005 was PLN 5,181k.

h. Compensation paid to the subsidiary company SL&DP Sp. z o.o. for rent of retail premises, of the total value of PLN 2,308k in 2005.

i. Compensation paid to the subsidiary company GM&PL Sp. z o.o. for rent of retail premises, of the total value of PLN 2,951k in 2005.

j. Compensation paid to the subsidiary company PL&GM Sp. z o.o. for rent of retail premises, of the total value of PLN 2,505k in 2005.

k. Compensation paid to the subsidiary company LIMA Sp. z o.o. for rent of retail premises, of the total value of PLN 2,417k in 2005.

l. Compensation paid to the subsidiary company AMA Sp. z o.o. for rent of retail premises, of the total value of PLN 2,432k in 2005.

m. Compensation paid to the subsidiary company AMUR Sp. z o.o. for rent of retail premises, of the total value of PLN 3,518k in 2005.

n. Compensation paid to the subsidiary company AMUK Sp. z o.o. for rent of retail premises, of the total value of PLN 3,355k in 2005.

All transactions 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 2005 and their maturity is presented in Notes to the consolidated financial statement in section 13.12.
In 2005, Capital Group companies used bank guarantees to secure payment of rent for leased retail premises where brand stores are located. The parent company requested for bank guarantees to secure retail lease agreements with LPP S.A. or its related parties as lessees under terms and provisions of these agreements, as well as for third parties (in two cases).

As at 31 December 2005, the total value of bank guarantees granted at the request and on the responsibility of LPP S.A. amounted to PLN 54,229,9k of which:

i) guarantees granted to secure lease agreements concluded by LPP S.A. – PLN 6,811.9k
j) guarantees granted to secure lease agreements concluded by consolidated related parties – PLN 27,858.5k
k) guarantees granted to secure lease agreements concluded by non-consolidated related parties – PLN 14,652.5k
l) guarantees granted to secure agreements concluded by third parties – PLN 395.1k

Last year, no loans were incurred by and no guarantees were granted to the Capital Group companies.

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

Loans granted are described in Notes to the financial statement (section 13.4).

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

Beneficiary	Amount in PLN '000	Guarantee validity date
Line for Paylink Citibank-Handlowy cards, guaranteeing payables of the company's customers in respect of the bank	4,400	30.06.2006
Guarantee for a promissory note issued to Orlen for two entities	90 22	Indefinite-term contract

Off-balance sheet payables referred to in section 7 and 8 are the only off-balance sheet liabilities in the period. No guarantees or sureties were granted by subsidiaries. Subsidiaries received the above sureties related to bank guarantees from the parent company only.

9. Appropriation of proceeds from share issue.

No securities were issued in 2005.

10. Explanation of differences between financial results disclosed in the annual report and forecast results for the fiscal year published earlier.

On 13 January 2005, the Issuer published the following forecast of consolidated financial results of LPP S.A. Capital Group for 2005: revenues of PLN 750m, net profit of PLN 60m. On 5 December 2005, the forecast was adjusted down to PLN 690m in revenues and PLN 53m in net profit. Based on data available in January 2006 it was estimated that LPP S.A. Capital Group generated sales volumes of approx. PLN 686m and net profit of PLN 40-44m, which was presented in the current report from 29 January 2006. Results disclosed in the annual report are as follows: PLN 685.9m in sales, PLN 40.1m in net result. Actual net profit was considerably different from the last forecast published in 2005, down by 25%. This reduction is attributable primarily to the Reserved collection which was less successful than planned, especially its autumn-winter part. The Group was not able to generate planned profits due to lower revenues per unit of selling area combined with high costs of operation of a dynamically developing sales network – significantly higher than planned (increase of selling area by 48% in 2005). Results generated in 2005 presented in the annual report are not materially different from forecast results presented in the current report from 29 January 2006.

11. Assessment (and its rationale) of financial assets management, with particular focus on the ability to meet of all incurred obligations, as well as identification of possible threats and actions taken or to be taken by the Issuer to counter these threats.

LPP Capital Group settles its payables in respect of countries and customers on an on-going basis. As a result of modified business model implemented for several years now, i.e. significant reduction of sales to wholesale customers, receivables turnover period was reduced. Generated inflows and concluded credit agreements provide full security of incurred liabilities.

12. Assessment of the feasibility of planned investments, including capital expenditure, against the value of owned assets, taking into account any possible changes in the structure of investment financing.

Investment plans will be completed based on the Capital Group's own resources and bank credits. The Management Board intends to ask shareholders not to pay out dividends and transfer 100% of earnings generated in 2005 to reserve capital.

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

There were no extraordinary events influencing the financial result in 2005.

14. Description of external and internal key factors influencing development of the Issuer's business and description of perspectives for development of the Issuer's business at least until the end of the current fiscal year, including elements of the Issuer's market strategy. Description of key risks and threats and their probability.

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

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

Internal factors

a) Market strategy of LPP S.A. Capital Group

LPP S.A. Capital Group is focused on design and distribution of clothing as well as building its brand while outsourcing many activities to third parties. It has no production capacity of its own and has no intention of building its own production sites. 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 S.A. Capital Group on the clothing market, gain new customers and ensure their loyalty.

b) The Group's market position

Marketing activities, focusing primarily on the Reserved brand, resulted in considerable increase of brand recognition in the target consumer group in Poland. Similar actions were taken for the new brand of clothing – Cropp. In 2006, marketing activities will be launched outside of Poland. The growth of LPP S.A. Capital Group in terms of its revenues from sales is very dynamic.

c) Extending and renewing the offer for the Company's customers

Products marketed by LPP S.A. Capital Group meet expectations of target customers groups connected to individual channels of distribution. Keeping in touch with the ever-changing preferences of customers, the Group launches new product groups to the market each year, trying to predict the market needs. To some extent, especially in the case of Reserved brand stores, LPP S.A. is trying to create its own style, based on global trends. The design and layout of brand stores in the Reserved network is also modified to reflect the latest trends in this respect. With the launch of the Cropp Town network, selling mainly Cropp clothing to the target customer group different from the Reserved target group, LPP S.A. is looking for new opportunities for growth.
In 2005, the Reserved network offered more daring designs to its customers. Part of this collection was not successful, and since the share of these designs in the collection as a whole was much larger than ever before, it had significant negative impact on the Company's results.

External factors

a) Changes and development of retail clothing market in Poland and in other countries where LPP S.A. Capital Group is running its business

For the past several years, the clothing market where the Capital Group is running its business has clearly developed its offer with the ever-increasing portfolio of brands offered to customers and new market players with international experience. In reaction to changes on the retail clothing market, LPP S.A. Capital Group is consistently implementing its plan of development of an extensive network of brand stores selling clothing under a popular label. Based on analyses of market developments, as well as marketing and organisational activities, the Group is trying to create a network of stores with specific characteristics to stand out of its biggest competitors.

b) Results of membership of Poland, the Baltic countries, the Czech Republic and Hungary in the European Union

Apparently, the EU membership did not make the clothing market in these new Member States more attractive for key European players; they had already entered these markets. At the beginning of 2005, formal barriers for the import of clothing from China to the EU were eliminated, which resulted in considerable increase of Chinese products on the European markets. Under pressure from several Member States, the European Commission signed an agreement with China; under this agreement, import volumes of 6 categories of Chinese clothing will be reduced by the end of 2007. As a result, LPP S.A. Capital Group successfully moved part of its production to other Asian countries offering required production capacities. Other top importers of clothing who also co-operate with manufacturers in the Far East have taken similar decisions. These changes did not affect the Capital Group's operations to any considerable extent.

c) Foreign exchange rates

Foreign exchange rates of two foreign currencies may have impact on the Capital Group's results: Euro and USD vs. local currencies in countries where the Group is running its business.
On-going analyses of USD and Euro exchange rates (currencies used in settlements with suppliers and foreign customers) and factors with potential impact on these exchange rates justify the assumption that the Capital Group's business will not be disrupted.
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. Another area where costs may be affected by foreign exchange rates (EURO exchange rates in particular) are retail lease agreements. Currency exchange rates determine the amount of rent paid by the Company for the majority of leased stores where the clothing is sold. The Management Board is of the opinion that changes in retail lease costs caused by changes in Euro exchange rates will not result in significant increase of total costs in this area, just as in the case of product prices.

d) Changes in fashion influencing the popularity of products offered to customers

Popularity of the product and resulting market position of clothing suppliers depend heavily on good performance of the design department. Taken this factor into consideration, the Capital Group attaches great weight to skills of designers and their sense of market timing. The design team is composed of several dozens of persons with good teamwork skills, creating clothing lines appreciated by customers. Another key factor is on-going monitoring of global trends, for instance by participating in major international exhibitions.

Perspectives for development of the Issuer's business

As in previous years, the Company assumes further development of the Reserved and Cropp retail network of brand stores. As at the end of 2005, 202 stores were opened with the total selling area of approx. 95,000 square metres. . In 2006, the Group is planning to open new stores and increase the total area of the brand stores network up to approx. 124,000 square meters.

15. Buy-back of treasury shares, 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 of treasury shares (if sold)

None.

16. Information of branch offices (plants) of the entity

None.

17. Key achievements in research & development

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

18. Financial instruments related to:

a) risk: changes in prices, credit risks, serious disruption of cash flows, and loss of financial liquidity ,

In line with the Ordinance by the Minister of Finance of 12 December 2001 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
- 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 sale of trading commodities to foreign customers.

Under paragraph 10.1.5a, b, c of the Ordinance by the Minister of Finance of 12 December 2001 on detailed 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 hedging of key types of planned transactions for which hedge accounting is used.

1) currency risk – discussed in section 14 above as an external risk factor,
2) interest rate risk – according to the Management Board, based on the analysis of changes in interest rates in previous periods, any potential increase of this parameter determining the amount of borrowing costs 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 a network of sales 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 S.A. Capital Group does not hedge these risks.

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

In 2005, there were no major changes in the management of the Issuer's business and its Capital Croup.

20. Changes in the composition of the Issuer's Management Board and Supervisory Board in the last fiscal year, rules of appointment and dismissal of members of the Management Board, as well as their scope of powers, in particular the right to decide on the issue or buy-back of shares

In 2005, there were no changes in the composition of the Management Board of LPP S.A. Mr Jacek Siwicki resigned from the position of the Supervisory Board member, as announced in the current report no. 33/2005 on 13 September 2005. Members of the Management Board are appointed by the Supervisory Board. Statements of will shall be made for on behalf of the Company individually by the President of the Management Board, by two Management Board members jointly or by one Management Board member with an authorised representative (proxy). Decisions on the issue or buy-back of shares shall be taken only by the General Meeting of Shareholders.

21. 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.

Shareholder	Number of shares held	Number of votes at the General Meeting of Shareholders	Nominal value of shares
President of the Management Board	281,876	981,876	563,752
Vice-President of the Management Board	5,684	5,684	11,368
Vice-President of the Management Board	4,055	4,055	8,110
Vice-President of the Management Board	2,744	2,744	5,488
Chairman of the Supervisory Board	276,039	976,039	552,078

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

22. Shareholders holding at least 5% of votes at the Issuer's General Meeting of Shareholders – directly or indirectly through subsidiaries.

As at the date of submission of the annual report for 2005, shareholders holding at least 5% of votes at the Issuer's General Meeting of Shareholders included:

Shareholder	Number of shares held	Number of votes at the General Meeting of Shareholders	Share in the total vote at the General Meeting of Shareholders	Share in share capital
Marek Piechocki	281,876	981,876	31.64%	16.55%
Jerzy Lubianec	276,039	976,039	31.45%	16.20%
Grangefont Limited, headquartered in London, UK	350,000	350,000	11.28%	20.55%

23. 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.

None.

24. Holders of any securities carrying special rights of control in the Capital Group and description of these rights.

Mr Jerzy Lubianiec and Mr Marek Piechocki hold 175,000 series B preference shares each. One preference share represents 5 votes at the General Meeting of Shareholders. At the same time, under provisions of Articles of Association, rights carried by shares can be exercised only up to 15% of votes by persons holding shares representing more than 15% of votes, apart from the abovementioned shareholders.

25. Information on the system of control of employee share option schemes.

Not applicable.

26. Information on any limitations for transfer of titles to securities of LPP Capital Group and any limitations for exercising voting rights carried by LPP CG shares.

Series F shares taken over by eligible persons under the 5-year incentive scheme cannot be sold within 2 years from their acquisition. This limitation still applies to 5,670 shares taken over under the incentive scheme closed in 2005. Entities holding shares carrying over 15% of votes at the General Meeting (individually or as a parent company with subsidiaries) shall exercise only up to 15% of voting rights carried by their shares. This limitation does not include Mr Marek Piechocki and Mr Jerzy Lubianiec.

27. Agreements concluded between the Company and members of its Management Board providing for 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 combination by take-over.

None.

28. Amount of remuneration, bonuses or rewards, including those received under incentive schemes or bonus schemes based on the Issuer's capital, including schemes based on bonds with pre-emptive rights, convertible bonds, subscription warrants (in cash, in kind, or in 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 13.8.1. of the Notes to the financial statement.

29. Entity entitled to audit financial statements

On 2 August 2004, LPP S.A. concluded an agreement with HLB Frąckowiak i Wspólnicy Sp. z o. o. (certified auditor of financial statements, licence no. 238). Under provisions of this agreement, the certified auditor shall audit the condensed individual half-year financial statement and consolidated half-year financial statement of LPP S.A. Capital Group drawn up as at 30 June 2005, as well as the individual annual financial statement and consolidated annual financial statement of LPP S.A. Capital Group drawn up as at 31 December 2005.

The total amount of net fee due or paid under the above agreements is approx. PLN 81.0k. In the previous fiscal year, HLB Frąckowiak i Wspólnicy Sp. z o.o. received the fee of PLN 81.0k.

In addition, in 2005 HLB Frąckowiak i Wspólnicy Sp. z o.o. conducted an analysis of the Company's financial and accounting system for compliance with IAS, and rendered tax consulting services. The total amount of fees paid for these services was PLN 24.8k.

Marek Piechocki

President of the Management Board

Alicja Milińska	*Stanisław Dreliszak*	*Dariusz Pachla*
Vice President	*Vice President*	*Vice President*

STATEMENT OF THE MANAGEMENT BOARD OF LPP S.A.

STATEMENT OF THE MANAGEMENT BOARD

In line with provisions of the Ordinance by the Minister of Finance of 19 October 2005 on current and interim information provided by issuers of securities, the Management Board of LPP S.A. hereby declares that:

- to the best of the Board's knowledge, the 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.

The Management Board of LPP S.A.:

Marek Piechocki ....

Alicja Milińska ....

Dariusz Pachla ....

Stanisław Dreliszak ....

Gdańsk, 24 April 2006