CONSOLIDATED ANNUAL REPORT of LPP S.A. CAPITAL GROUP FOR FY 2006

CONTAINING:

- LETTER FROM THE PRESIDENT OF THE MANAGEMENT BOARD
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- STATEMENTS OF THE MANAGEMENT BOARD

April 2007

LETTER FROM THE PRESIDENT OF THE MANAGEMENT BOARD

Dear Shareholders,

As in the past several years, our Company and the entire Capital Group considerably increased its trading power in FY 2006. As at year-end, we operated a network of 246 brand stores with the total selling area of 118 thousand square meters, located in eight countries. The most intensive growth was recorded in the Russian market, which has been developing very fast and offering great opportunities of growth for modern enterprises. In just the span of one year, we opened as many as 23 stores in Russia, increasing the total number of outlets to 28.

In spite of the fact that in the first three quarters of the previous year we recorded a net loss, as we had to sell a collection which failed to meet expectations of the market, we still recorded the consolidated net profit of PLN 41 million for the entire year. Very good results generated in Q4 have shown beyond any doubt that we managed to identify and eliminate the source of our problems that we had experienced in the preceding 12 months. This experience was a major lesson learned for us.

For this year, we are planning to increase our total selling area to about 150 thousand square metres, i.e. up to 300 outlets in total. We will continue to develop our network of brand stores in Russia. Taking into account the development of LPP SA Capital Group, and the ever-increasing needs in the area of logistics, we are planning to launch a major project this year, i.e. construction of a state-of-the-art logistics centre in Pruszcz Gdański.

I do believe that the increase in revenues recorded in the past six months in our stores, combined with the development of our trading network, will allow us to achieve results significantly better than in the previous year 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 2006 - 2005

Selected financial data – consolidated statement

Selected financial data	2006	2005	2006	2005
	in PLN '000		in EUR '000	
Net revenues from sales of products, goods and materials	815 135	685 851	209 057	170 470
Operating profit (loss)	51 653	58 789	13 247	14 612
Gross profit (loss)	50 542	52 105	12 962	12 951
Net profit (loss)	41 023	40 053	10 521	9 955
Net cash flow from operations	76 018	47 562	19 491	11 656
Net cash flow from investments	-62 520	-93 879	-16 030	-23 007
Net cash flow from financial activity	-10 315	58 191	-2 645	14 261
Total net cash flow	3 183	11 874	816	2 910
Total assets	535 974	434 736	139 897	112 632
Long-term payables	15 544	15 058	4 057	3 901
Short-term payables	245 708	186 216	64 133	48 245
Equity	273 285	232 450	71 331	60 223
Share capital	3 407	3 407	889	883
Number of shares	1 703 500	1 703 500	1 703 500	1 703 500
Profit (loss) per ordinary share (EPS) (in PLN/EURO)	24.08	23.51	6.18	5.84
Book value per share – BVPS (in PLN/EURO)	160.43	136.45	41.87	35.35

Earnings per share (EPS) were 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*	*Aleksander Moroz*
Vice-President of the Management Board	Vice-President of the Management Board	Vice-President of the Management Board	Vice-President of the Management Board

CONSOLIDATED FINANCIAL STATEMENT OF LPP S.A.
For the fiscal year ended 31 December 2006

1. Consolidated balance sheet

Balance sheet	Notes	as at the end of: 31/12/2006	31/12/2005
ASSETS			
Fixed assets (long-term)		217 143	195 431
1. Tangible fixed assets (PP&E)	13.1	193 834	175 138
2. Intangible assets	13.2	13 478	14 436
3. Investments	13.3	903	876
4. Receivables		250	187
5. Deferred income tax assets	13.18	8 650	4 356
6. Prepaid expenses	13.15	28	438
Current assets (short-term)		318 831	239 305
1. Inventories	13.5	232 781	171 566
2. Trade and other receivables	13.6	50 471	37 653
3. Prepaid expenses	13.15	3 360	2 604
4. Investments	13.3	1 670	116
5. Cash and cash equivalents	13.7	30 549	27 366
TOTAL assets		***535 974***	***434 736***

LIABILITIES			
Equity		*273 285*	*232 450*
1. Share capital	13.8	3 407	3 407
2. Reserve capital	13.8	232 265	200 368
3. Other reserves		83	
4. Retained profit/accumulated loss brought forward from previous years		-3 803	-11 851
5. Net profit/loss of the reporting period		41 023	40 053
6. Revaluation reserve			1
7. Foreign exchange differences (conversion of related parties)		310	472
Long-term payables		*15 544*	*15 058*
1. Borrowings (bank credits and loans)	13.13	11 000	11 000
2. Provisions	13.10	364	287
3. Deferred income tax provision	13.18	4 171	3 733
4. Other long-term payables		9	38
Short-term payables		*245 708*	*186 216*
1. Trade and other payables	13.14	117 768	54 214
2. Borrowings (bank credits and loans)	13.13	124 139	128 482
3. Income tax		2 246	2 451
4. Provisions	13.10	1 354	928
5. Special funds		201	141
Accruals and deferred income		*1 437*	*1 012*
TOTAL liabilities		***535 974***	***434 736***

Book value	273 285	232 450
Number of shares	1 703 500	1 703 500
Book value per share – BVPS (in PLN)	160,43	136,45

Profit and loss account	Notes	01/01/2006-31/12/2006	01/01/2005-31/12/2005
Revenues from sales	13.16	815 135	685 851
Selling costs		366 241	311 624
Gross profit/loss on sales		*448 894*	*374 227*
Other operating revenues	13.16	4 814	6 029
Costs of sales	13.17	342 074	273 937
General administrative expenses	13.17	49 425	39 549
Other operating expenses	13.17	10 556	7 981
Operating profit (loss)		*51 653*	*58 789*
Financial revenues	13.16	6 506	691
Financial expenses	13.17	7 617	7 375
Gross profit/loss		*50 542*	*52 105*
Taxes	13.18	9 519	12 052
Net profit/ loss		***41 023***	***40 053***

Weighted average number of ordinary shares		1 703 500	1 703 500
Profit (loss) per ordinary share (EPS) (in PLN)		24,08	23,51

Earnings per share (EPS) for each period is calculated by dividing net profit for the reporting period by the weighted average number of shares in this period.

2. Consolidated profit and loss account

Profit and loss account	Notes	01/01/2006-31/12/2006	01/01/2005-31/12/2005
Revenues from sales	13.16	815 135	685 851
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Net profit/ loss		***41 023***	***40 053***

Weighted average number of ordinary shares		1 703 500	1 703 500
Profit (loss) per ordinary share (EPS) (in PLN)		24,08	23,51

3. Statement of changes in equity

Statement of changes in equity	Share capital	Reserve capital	Other reserves	Retained profit/accumulated loss brought forward from previous years	Net profit/loss of the reporting period	Foreign exchange differences (conversion of related parties)	TOTAL equity
As at 1 January 2005	3 407	151 236	1	36 183	0	-8	190 819
- corrections of errors from previous years				48			48
As at 1 January 2005 (corrected)	3 407	151 236	1	36 231	0	-8	190 867
Foreign exchange differences after conversion of related parties						480	480
Distribution of net profit for FY 2004 and for previous years		48 082		-48 082			0
Employee benefits		1 050					1 050
Net profit for FY 2005					40 053		40 053
As at 31 December 2005	3 407	200 368	1	-11 851	40 053	472	232 450
As at 1 January 2006	3 407	200 368	1	28 202	0	472	232 450
- corrections of errors from previous years				-26			-26
As at 1 January 2006 (corrected)	3 407	200 368	1	28 176	0	472	232 424
Foreign exchange differences after conversion of related parties						-162	-162
Distribution of net profit for FY 2005		31 897	82	-31 979			0
Net profit for FY 2006					41 023		41 023
As at 31 December 2006	3 407	232 265	83	-3 803	41 023	310	273 285

4. Consolidated cash flow statement

Cash flow statement	01/01/2006-31/12/2006	01/01/2005-31/12/2005
A. Cash flow from operations – indirect method		
I. Gross profit (loss)	50 542	52 105
II. Total adjustments	25 476	-4 543
1. Amortisation and depreciation	41 466	30 779
2. Foreign exchange (gains) losses	1 549	1 229
3. Interest and profit sharing (dividends)	4 556	5 277
4. (Profit) loss from investments	905	636
5. Income tax paid	-13 517	-13 727
6. Change in provisions	519	144
7. Change in inventories	-61 993	-40 077
8. Change in receivables	-12 402	-18 909
9. Change in short-term payables, excluding credits and loans	65 983	29 981
10. Change in prepaid expenses, accruals and deferred income	116	506
11. Other adjustments	-1 706	-382
III. Net cash flow from operations (I+/-II)	76 018	47 562
B. Cash flow from investments		
I. Inflows	1 908	1 239
1. Sale of intangible assets and tangible fixed assets	649	1 086
2. From financial assets, including:	1 259	152
a) in related parties	1 137	0
- dividends and profit sharing	1 137	
b) in other entities	122	152
- sale of financial assets		47
- interest	17	14
- repayment of short-term loans granted	105	91
- repayment of long-term loans granted		
- other inflows from financial assets		
3. Other inflows from investments		1

II. Outflows	64 428	95 118
1. Acquisition of intangible assets and tangible fixed assets	62 752	95 018
2. On financial assets, including:	1 676	86
a) in related parties	0	86
- acquisition of shares, additional paid-in capital		86
b) in other entities	1 676	0
- short-term loans granted	1 676	
3. Other outflows on investments		14
III. Net cash flow from investments (I-II)	-62 520	-93 879
C. Cash flow from financial activity		
I. Inflows	8 767	67 862
1. Borrowings (credits and loans)	8 767	67 816
2. Other financial inflows		46
II. Outflows	19 082	9 671
1. Repayment of credits and loans	12 562	4 026
2. Payments related to finance lease agreements	58	40
3. Interest	6 462	5 255
4. Other financial outflows		350
III. Net cash flow from financial activity (I-II)	-10 315	58 191
D. Total net cash flow (A.III+/-B.III+/-C.III)	**3 183**	**11 874**
E. Total cash flow balance, including:	**3 183**	**11 874**
- change in cash – foreign exchange differences	-1 722	-1 442
F. Opening cash balance	**27 366**	**15 492**
G. Closing cash balance (F+/-D), including:	**30 549**	**27 366**
- restricted cash	215	156

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT OF LPP CAPITAL GROUP FOR FY 2006

INTRODUCTION

1. General information

Name and registered office of the parent company of LPP Capital Group:

LPP Spółka Akcyjna
with its registered office in Gdańsk, Poland
ul. Łąkowa 39/44
ZIP code: 80-769

Core business:

1. wholesale of clothing, classified in item 51.42 Z of the Polish Classification of Economic Activities (PKD) as "wholesale of clothing and footwear",
2. retail sale of clothing, classified in item 52.42 Z as "retail sale 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 Board
- Dariusz Pachla - Vice President of the Board
- Alicja Milińska - Vice President of the Board
- Stanisław Dreliszak - Vice President of the Board
- Aleksander Moroz - Vice President of the Board

Members of the Supervisory Board:
- Jerzy Lubianiec - Chairman of the Supervisory Board
- Krzysztof Olszewski - Member of the Supervisory Board
- Wojciech Olejniczak - Member of the Supervisory Board
- Maciej Matusiak - Member of the Supervisory Board
- Krzysztof Fąferek - Member of the Supervisory Board
- Andrzej Puślecki - 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.	Name of the company	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 (closed joint-stock company)	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 vote.

The consolidated financial statement of the Capital Group covering the period between 1 January and 31 December 2006 covers individual results of LPP S.A. and results of foreign subsidiaries listed below:
- LPP Retail Estonia OU,
- LPP Czech Republic s.r.o.,
- LPP Hungary Kft,
- LPP Retail Latvia Ltd,
- UAB LPP,
- LPP Ukraina AT,
- ZAO Re Trading.

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

Under this policy, a subsidiary or associate is not consolidated if results disclosed in the financial statement of this entity are immaterial compared to data disclosed in the financial statement of the parent company. In particular, the balance sheet total, net revenues from sales of goods and services and financial transactions of the entity which represent less than 10% of the balance sheet total and revenues of the parent company in the reporting period shall be considered immaterial. The total amount of balance sheet totals and revenues of non-consolidated entities must not exceed this level, but established in relation to the corresponding amounts of the consolidated financial statement, based on the assumption that the statement covers all subsidiaries and associates with no exceptions.
Share of all non-consolidated Polish subsidiaries in the consolidated results is as follows:

- in the Capital Group's balance sheet total – 0.80 %
- in the Capital Group's revenues from sales and financial revenues – 5.53 %

The fact that financial statements of these companies are not consolidated does not affect the 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. The 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, whose task is to outsource the production of individual products to manufacturing plants in Poland and abroad. Production in China is managed by the Company's trading office in Shanghai.
In addition, the Capital Group generates small revenues from sales of services (these include only revenues generated by the parent company – mainly know-how services related to the management of brand stores by Polish contractors and lease of transport vehicles).
19 Polish subsidiaries are involved in the lease of real property where Cropp Town and Reserved outlets are located.

4. Legal basis of the financial statement and information on changes in the 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, LPP Capital Group shall present the consolidated financial statement drawn up as per 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 starting before 1 January 2005 were prepared based on the Accounting Act and its implementing provisions.
The Group decided not to exercise its rights resulting from the amendment contained in IAS 1 as regards loans granted to subsidiaries, and does not classify these loans as subordinated loans.

The report contains the Group's consolidated financial statement and the individual financial statement of LPP S.A. The report was drawn up as per IFRS.

This consolidated financial statement was drawn up in PLN.

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 FY 2006 was drawn up based on the assumption that the Capital Group shall remain a going concern in the foreseeable future and that its business is not limited to a considerable extent.
Based on the information available as at the date of preparation of this financial statement, the going concern assumption adopted herein is fully justified.

7. Date of approval of the financial statement for publication

This financial statement was authorised for issue (i.e. approved for publication) by the Management Board of the parent company of LPP Capital Group on 24 April 2007.

8. Events after the balance sheet date

As per IAS 10, events after the balance sheet date 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 have been no events which could have any 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. Methods of measurement of assets and liabilities and determination of the financial result adopted in the consolidated report

Tangible fixed assets (PP&E) and intangible assets
Tangible fixed assets (Property, Plant & Equipment) 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 an asset was put into use, including costs of maintenance and repairs, are charged to the profit and loss account as they are incurred. Borrowing costs are not included in the carrying amount of PP&E but recognised in the profit and loss account when incurred.
As at the balance sheet date, tangible fixed assets are measured at cost less depreciation and impairment losses.
The Capital Group's depreciation write-offs are made on a straight-line basis. Tangible fixed assets (PP&E) are depreciated over the asset's expected useful life verified on an annual basis.
PP&E is also tested for impairment resulting from events or changes in the business environment or within the CG companies which could cause an impairment of these assets below their current book value.
For accounting purposes, based on the materiality principle, the adopted threshold amounts for one-off depreciation of PP&E or non-inclusion of an asset in PP&E are equal to tax threshold amounts.

As a result, LPP S.A. adopted the following rule: whenever the initial carrying amount of a tangible fixed asset or property right exceeds PLN 3,500.00, 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 PP&E is below PLN 3,500.00, 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 comparable 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:

- many tangible 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,
- these assets are a part of a larger set of uniform and/or interconnected units, and their purchase is related to a large investment project to be implemented at least over the period of normative depreciation specified for this particular group of fixed assets in tax regulations,
- these tangible 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 the construction and furnishing of new Reserved and Cropp brand stores – implementation of a new project 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 assumed initially.

Assets in construction – as at the balance sheet date they are carried in the total amount of costs directly related to their acquisition or construction, less impairment losses.

Long-term investments in the CG include:
- shares held by LPP S.A. in Polish subsidiaries – carried at cost less impairment losses,
- long-term loans granted – measured as at the balance sheet date at depreciated cost estimated using the effective interest method, less impairment losses.

Long-term prepaid expenses include:

- deferred income tax assets – subsequently measured as at each balance sheet date,
- prepaid expenses related to prepaid lease rent.

Inventories
Inventories are carried at the lower of cost and net realisable value 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 to costs of ordinary operations when they are incurred, as they represent an immaterial amount.

Trading commodities issued from Reserved, Cropp and Henderson 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 of transport abroad and cost of transport in Poland up to the first unloading point in Poland.
The value of goods issued from bonded warehouses (moved to local warehouses or sold directly abroad) is measured based on detailed identification of goods for individual lots accepted to 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 the 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 losses are charged to other operating expenses.

Receivables
Trade receivables are recognised and disclosed at amounts initially invoiced, including write-downs on irrecoverable receivables and doubtful receivables (allowance for uncollectible amounts).
Taking into account the relatively short payment terms (below 120 days), the above rule does not result in any material changes in the 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) – the debtor's financial situation is analysed in detail 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 using the 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 exceeding 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 (equity-settled share-based payment programme).

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

This item presents the 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 the adopted 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 the relatively short payment terms (below 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, taking into account the length of service, gender, and the current amount of remuneration. It was assumed that the discount related to the provision for retirement benefits is equal to the expected salary growth rate.

There were no actuarial gains or losses in the reporting period.

Revenues

Revenue is recognised to the extent that it is probable that economic benefits related to a given transaction will flow to the Company and that they can be reliably measured.

Revenues from the sale of goods are recognised when the significant risks and rewards of ownership have passed to the buyer.

Given the complaints and returns from customers, revenues from the sale of goods are adjusted based on a correction of the estimated cost of these returns. Based on our experience to date, the ratio of product return has been estimated against the sales volume. It was also assumed that the majority of product returns occur within the first quarter following the purchase. The value of this ratio (against prime costs and revenues) is defined every quarter.

Revenue from interest is accrued on a time basis 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. expensed immediately in the period when incurred.

Transactions in foreign currencies

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

As at the transaction date, assets and liabilities denominated 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 denominated 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.

Grants
Government grants are recorded to the extent that their respective revenue is recognised in proportion to their associated costs.

The Company has adopted the following methods of presentation of Government grants in its financial statement:

- grants to assets – are recognised initially as a separate item under "Deferred income", and subsequently on a time basis as a revenue over the useful life of the respective asset;
- grants to revenues – as an item under "Other operating/financial revenues".

Earnings Per Share
Earnings per share for each period is calculated by dividing net profit for the period by the 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
No share-based payment programme was implemented in the reporting period.

Segment reporting
The scope of financial information reportable for individual segments of the Group's business is based on the requirements of IAS 14.
The Group adopted the classification into geographical segments – i.e. segments related to business activities in different geographical areas.
Two segments have been identified:

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

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

Segment assets (liabilities) are those operating assets (liabilities) used in segment operations that are directly attributable or reasonably allocable to a segment.

Segment result is determined at the operating profit level.
Segment revenue, result, assets and liabilities are determined before eliminating intersegment transactions, after intra-segment eliminations.

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 a disclosure of this hyperinflationary restatement in the balance sheet as an accumulated loss brought forward from previous years 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 the 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 drawn up 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
The majority of transactions related to purchase of trading commodities are denominated in USD; a small portion of these transactions is settled in EURO.
Revenues from sales are denominated mainly in PLN. The exchange rate PLN against USD and EURO (on the whole, in the past several quarters we have seen the strengthening of PLN) is stable enough to justify the Management Board's conclusion that these variations are unlikely to affect the Company's results.
Given the specific type of the Company's business, it is possible to partially transfer the risk of increase in USD exchange rate to end customers, as the product selling price is calculated just before the product is introduced to the market.
Apart from the currency risks related to the settlement currency used in the purchase of trading commodities, there are also other currency risks related to the settlement of rent for the leased commercial premises in EURO. The above opinion of the Management Board on the immaterial impact of currency exchange rate variability applies also to the settlements under contracts of lease.

b) interest rate risks
Interest rate risks are related to bank credits utilised by LPP S.A. CG on a regular basis, as well as loans granted by the Company (on a smaller scale). Bank credits with floating interest rate create cash flow risks. The Management Board believes that interest rate changes (if any) 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) and Company employees in the total amount of PLN 1,855 k.

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 the total amount of receivables
Customer 1	17.6%
Customer 2	6.7%
Other with debts representing less than 5% of the total amount of receivables	75.7%
Total net trade receivables	100.0%

As at 31 December 2006, the total value of all bank guarantees granted at the request and on the responsibility of LPP S.A. amounted to: PLN 55,415 k.
Detailed information on guarantees and sureties granted is presented in Note 13.11.

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

11. Critical accounting estimates and judgments

Estimates influencing the amounts disclosed in the financial statement refer to:

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

The methodology employed by the Company is based on the best knowledge of the Management Board and is in line with the 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,
- the future tax results taken into account when calculating deferred income tax assets.

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

- the estimated economic useful life of certain elements of property, plant and equipment – outlays in third-party assets (changed period of a contract of lease) and anti-burglary systems (high wear and tear and technological advancement),
- 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 denominated 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 equity) are converted at the average exchange rate published by the National Bank of Poland for this particular currency as at the balance sheet date;
- individual items in the profit and loss account are converted at the exchange rate calculated as an arithmetic average of average exchange rates published by the National Bank of Poland for this particular currency as at the last day of each month during the fiscal year;
- individual items in the cash flow statement are converted at the exchange rate calculated as an arithmetic average of average exchange rates published by the National Bank of Poland for this particular currency as at the last day of each month during the fiscal year;
- 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,
- profits (losses) 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.

The following adjustments and non-consolidation principles were adopted:

- interest held by the parent company in the equity of subsidiaries is not consolidated,
- intercompany payables and receivables are not consolidated,
- revenues and expenses related to the Capital Group intercompany sale and purchase transactions are not consolidated,
- adjustments for unrealised profits related to the Capital Group inventory,

- interest on loans granted by the parent company to its subsidiaries is excluded from financial revenues and expenses,
- adjustments of the Capital Group's financial result related to deferred income tax on foreign exchange differences and interest on loans granted within the Group as at the balance sheet date.

Marek Piechocki

President of the Management Board

Alicja Milińska	*Stanisław Dreliszak*	*Dariusz Pachla*	*Aleksander Moroz*
Vice-President of the Management Board	Vice-President of the Management Board	Vice-President of the Management Board	Vice-President of the Management Board

Gdańsk, 24 April 2007

NOTES TO THE FINANCIAL STATEMENT

13. Notes to the financial statement

13.1 Tangible fixed assets (PP&E)

PP&E is depreciated on a straight-line basis based on the following depreciation rates:

- buildings, facilities and civil- and hydro-engineering structures: 2.5 – 46%,
- plant and machinery: 7 – 50%
- transport vehicles: 10 – 33%,
- other tangible fixed assets: 14 – 50%.

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

In the reporting period, write-downs of PP&E made previously for the total amount of PLN 329 k were reversed, as economic benefits resulting from the disposal of PP&E were higher that initially assumed.

Compensations related to tangible fixed assets, received by the Group in 2006, amounted to PLN 231 k and resulted mainly from vehicle-related damage.

The Group has idle PP&E (temporarily out of use) with the initial carrying amount of PLN 895 k.

PP&E used by the Group is fully depreciated. Its initial carrying amount is PLN 9,141 k.

As at the balance sheet date, no restricted ownership or encumbrances were established on the Group's PP&E.

As at 31 December 2006, the Group's contractual obligation related to the purchase of tangible fixed assets totalled PLN 944 k.
As at 31 December 2006, the Group had no tangible fixed assets held for sale or discontinued operations.

The Group 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 groups) as at 31-12-2006

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) gross opening balance of PP&E	11 838	149 917	41 750	4 802	21 556	4 123	172	234 158
- foreign exchange differences		244	-268	3	-58	-26	-4	-109
- increase	499	27 362	10 353	220	9 937	46 073	3 555	97 999
- decrease	0	1 735	1 860	209	848	39 335	298	44 285
2) gross closing balance of PP&E	12 337	175 788	49 975	4 816	30 587	10 835	3 425	287 763
3) opening balance accumulated depreciation	0	34 562	15 706	2 048	5 138	0	0	57 454
- foreign exchange differences	0	34	-195	2	-8	0	0	-167
- depreciation	0	22 810	9 734	820	5 064	0		38 428
- foreign exchange differences		-67	-72	0	-19			-158
- decrease	0	1 286	1 575	130	360	0	0	3 351
4) closing balance accumulated depreciation	0	56 053	23 598	2 740	9 815	0	0	92 206
5) opening balance impairment losses	0	1 566	0	0	0	0	0	1 566
- increase	0	319	167	0	0	0	0	486
- decrease	0	329	0	0	0	0	0	329
6) closing balance impairment losses	0	1 556	167	0	0	0	0	1 723
Total net closing balance of PP&E	12 337	118 179	26 210	2 076	20 772	10 835	3 425	193 834

CHANGES IN PROPERTY, PLANT AND EQUIPMENT (by groups) 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) gross opening balance of PP&E	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) gross closing balance of PP&E	11 838	149 917	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 losses	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 losses	0	1 566	0	0	0	0	0	1 566
Total net closing balance of PP&E	11 838	113 789	26 045	2 754	16 418	4 123	172	175 138

Impairment losses – items in the 2005 P&L account	amount
- increase – "Revaluation of non-financial assets"	806
- reversal – "Other operating revenues"	43

Impairment losses – items in the 2006 P&L account	amount
- increase – “Revaluation of non-financial assets”	486
- reversal – “Other operating revenues”	0

13.2 Intangible assets

The Group has intangible assets constructed in the Capital Group companies. These include development works amounting to PLN 123 k net 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 has no intangible assets with unspecified useful life.

Intangible assets with determined useful life are amortised 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%

Intangible assets are tested for impairment on an annual basis. No impairment of intangible assets was identified in 2006 or in the comparative period.

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 364 k,
- general administrative expenses – PLN 2,674 k.

An important element 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 2006, the carrying amount of this software was PLN 10,512 k. Its expected useful life is estimated at 54 months from the balance sheet date.

As at 31 December 2006, the Group’s contractual obligation related to the purchase of intangible assets totalled PLN 370 k.

During the reporting period, i.e. from 1 January to 31 December 2006, the Group made no outlays on R&D works.

CHANGES IN INTANGIBLE ASSETS (by groups) in the period from 1-01-2006 to 31-12-2006 in PLN '000

	costs of completed R&D 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) gross opening balance of intangible assets	443	18 103	17 968	2 519	398	216	21 679
- foreign exchange differences		-7	-5	0	0	7	0
- increase	-	4 570	4 343	1 968	103	89	6 730
- decrease		96	96	4 254	398		4 748
b) gross closing balance of intangible assets	443	22 570	22 210	233	103	312	23 661
c) opening balance accumulated amortisation	172	6 997	6 895	-	-	74	7 243
- foreign exchange differences	0	-3	-2			1	-2
- planned amortisation write-offs	148	2 819	2 718	-		71	3 038
- foreign exchange differences	0	0	0			0	0
- decrease	0	96	96			0	96
d) closing balance accumulated amortisation	320	9 717	9 515	-	-	146	10 183
Total net closing balance of intangible assets	123	12 853	12 695	233	103	166	13 478

CHANGES IN INTANGIBLE ASSETS (by groups) in the period from 1-01-2005 to 31-12-2005 in PLN '000

	costs of completed R&D works	acquired patents, licenses and similar rights, including: total	acquired patents, licenses and similar rights, including: software	intangible assets in progress	payments on account of intangible assets	other intangible assets	total
a) gross opening balance of intangible assets	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) gross closing balance of intangible assets	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 net closing balance of intangible assets	271	11 106	11 074	2 519	398	142	14 436

The Company uses fully amortised intangible assets with the initial carrying amount of PLN 2,911 k.
These include:
- software licenses: PLN 2,762 k
- other licenses: PLN 42 k
- copyrights: PLN 107 k.

As at the balance sheet date, there were no restrictions related to the use of intangible assets and no security was established on the Group's intangible assets.

13.3 Investments

The Group's investments include:
- shares held by the parent company in Polish non-consolidated subsidiaries: PLN 718 k,
- loans granted to third parties: PLN 1,855 k.

Loans granted are classified as financial instruments and described in Note 14.4 below.
Shares in subsidiaries are measured at cost less impairment losses. 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 required.

13.4 Financial instruments measured as per IAS 39

Financial assets and liabilities recognised in the reporting period were carried as at the balance sheet date based on the following principles:
- at fair value – receivables and payables other than trade receivables and payables, bank deposits,
- at amortised cost – loans granted, trade receivables and payables, credits.

The total amount of loans granted by the Capital Group as at 31 December 2006 totalled PLN 1,855 k (vs. PLN 273 k as at 31 December 2005) and included:
- a loan granted to a customer of the parent company in the amount of PLN 201 k. Under the loan agreement, interest (8% 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 July 2009.
- a loan granted to a customer of the parent company in the amount of PLN 1,508 k. Under the loan agreement, interest (7% p.a.) and instalments of the principal amount are to be repaid at the same time by 31 September 2007.
- loans granted by the parent company to its employees in the total amount of PLN 146 k. The period of these loan agreements does not exceed 2 years. The principal amount shall be repaid in monthly instalments, while interest (6% p.a.) shall be repaid with the last instalment of the principal amount.

As an active market does not exist, the Group did not estimate the fair value of loans granted, which (given the adoption of the fixed interest rate) may be different from the carrying amount calculated based on amortised cost.
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 the resulting insignificant credit risk and interest rate risk, the nominal value of bank deposits is considered a sufficient approximation of their fair value.

Changes in loans granted and bank deposits in the reporting and comparative period are presented below.

PLN '000

CHANGE IN FINANCIAL INVESTMENTS	loans granted		bank fixed-term deposits	
	2006	2005	2006	2005
Opening balance	273	339	12 508	3 863
1) increase	1 702	15	360 790	14 165
- loan granted	1 676	0		
- interest accrued	26	15		
- deposit established			360 790	14 165
2) decrease	120	81	369 142	5 520
- loans repaid	105	68		
- interest repaid	15	13		
- deposits closed (reversed)			369 142	5 520
Closing balance	1 855	273	4 156	12 508

Trade receivables and payables are carried at the discounted value as at the balance sheet date, based on the amortised cost method and using the effective interest rate. Under the accounting policy adopted by the Company, as the difference in measurement is immaterial, trade receivables and payables with the maturity below 120 days are carried at amounts initially invoiced, including revaluation write-downs.
In the reporting period, there were no trade receivables and payables with the maturity over 120 days.
Receivables and payables classified as "other" are carried at fair value as at the balance sheet date.

Long-term bank credit was carried at the outstanding amount payable, i.e. the principal amount plus interest payable as at the balance sheet date, calculated as specified in the contract. The difference between the amount determined based on the amortised cost method and the carrying amount would be immaterial.

13.5 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:

PLN '000

INVENTORIES	31.12.2006	31.12.2005
1) materials	1 910	2 651
2) commodities	229 351	168 306
3) payments on account of deliveries	1 520	609
TOTAL	232 781	171 566

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

The carrying amount of inventories disclosed in the balance sheet includes the amount of a write-down. Changes in the amount of this write-down in the reporting period and comparative period are presented in the table below.

REVALUATION WRITE-DOWNS OF INVENTORIES	31.12.2006	31.12.2005
Opening balance revaluation write-down of inventories	642	1 741
Revaluation write-downs of inventories – increase recognised in the reporting period under expenses in the P&L account	1 388	508
Revaluation write-downs of inventories – decrease recognised in the reporting period under revenues in the P&L account	144	1 589
Foreign exchange differences	9	-19
Closing balance revaluation write-down of inventories	1 895	642

Trading commodities or materials 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 the estimated probable loss on their sale. Under the policy adopted by the Group, only the difference between the 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.

As at 31 December 2006, the amount of inventories expensed in the reporting period totalled PLN 387,021 k.

13.6 Trade and other receivables

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

PLN '000

SHORT-TERM RECEIVABLES	31.12.2006	31.12.2005
1) from related parties	944	242
- trade receivables	944	242
2) from other entities	49 527	37 411
- trade receivables	35 304	28 848
- taxes, grants, customs duties and social security, health insurance and other benefits	9 752	2 394
- other	4 471	6 169
TOTAL	50 471	37 653

Trade receivables include mainly receivables related to the sale of clothing.
In the normal course of sales, receivables are settled within three months from the date of sale.
The total amount of short-term receivables presented above is a net amount, i.e. includes a revaluation write-down of PLN 4,859 k.

Changes in the amount of revaluation write-downs of receivables in the reporting period and the comparative period are presented in the table below:

REVALUATION WRITE-DOWN OF RECEIVABLES	31.12.2006	31.12.2005
Opening balance revaluation write-down of receivables	5 573	6 255
Revaluation write-downs of receivables – increase recognised in the reporting period	1 944	1 911
Revaluation write-downs of receivables – decrease recognised in the reporting period	2 659	2 596
Foreign exchange differences	1	3
Closing balance revaluation write-down of receivables	4 859	5 573

13.7 Cash

PLN ‘000

CASH	31.12.2006	31.12.2005
1) cash in hand and cash in banks	26 393	14 858
2) other cash	4 156	12 508
TOTAL	30 549	27 366

“Other cash” includes short-term deposits. These deposits are established for a fixed term (from one day up to one month, depending on the current needs) and bear interest based on defined interest rates.

The currency structure of cash is presented in the table below.

CASH – CURRENCY STRUCTURE	31.12.2006	31.12.2005
in the Polish currency	12 079	16 255
in foreign currencies (by currency)	18 470	11 111
- USD	765	1 159
- RMB	1	133
- EUR	1 082	96
- LVL	209	92
- EEK	2 750	1 519
- CZK	24 648	19 617
- UAH	1 063	403
- LTL	1 210	1 099
- HUF	78 768	62 509
- RUB	34 936	9 556
TOTAL (in PLN ‘000)	30 549	27 366

As at 31 December 2006, the Group had free borrowings of PLN 116,534 k.

In the period from 1 January to 31 December 2006, the Group made non-cash settlements with its customers (in the form of set-off of payables and receivables) for the total amount of PLN 2,936 k.

The Group's restricted cash includes cash related to the Company Social Fund. This cash is deposited on a separate bank account. This Fund is established only by the parent company.

The total amount of restricted cash was:
- PLN 215 k as at 31 December 2006,
- PLN 156 k as at 31 December 2005.

13.8 Equity

Share capital
The Group's share capital is equal to share capital of the parent company.
As at 31 December 2006, it totalled PLN 3,407 k. Share capital is divided into 1,703,500 shares with the nominal value PLN 2.00 per share.
In the period between 1 January 2006 and 31 December 2006, the number of shares did not change.

The total number of shares broken down into subsequent share issues is presented in the table below.

Series /issue	Type of shares	Type of preference	Type of limitation of rights to shares	Number of shares	Value of the issue
A	bearer shares	common (ordinary)	none	100	200
B	registered shares	preference	none	350 000	700 000
C	bearer shares	common (ordinary)	none	400 000	800 000
D	bearer shares	common (ordinary)	none	350 000	700 000
E	bearer shares	common (ordinary)	none	56 700	113 400
F	bearer shares	common (ordinary)	none	56 700	113 400
G	bearer shares	common (ordinary)	none	300 000	600 000
H	bearer shares	common (ordinary)	none	190 000	380 000
TOTAL NUMBER OF SHARES				1 703 500	

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 their voting rights at the General Meeting of Shareholders. Each registered share carries 5 votes.

Ownership structure of share capital of LPP S.A. as at 31 December 2006 is presented in the table below:

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	246 338	946 338	30.49%	14.46%	492 676
Grangefont Limited, headquartered in London, UK	350 000	350 000	11.28%	20.55%	700 000
Commercial Union OFE BPH CU WBK	214 954	214 954	6.93%	12.62%	429 908
Other shareholders	610 332	610 332	19.66%	35.82%	1 220 664
TOTAL	1 703 500	3 103 500	100.0%	100.0%	3 407 000

Reserve capital

The Capital Group's reserve capital was created from:
- net profit (to be used to offset any potential loss),
- share issue premium (shares sold above their nominal value),
- measurement of share-based payments.

Part of the reserve capital established as a write-off from financial result of the parent company 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.

The structure of reserve capital is as follows:

PLN '000

TYPE OF RESERVE CAPITAL	31 December 2006	31 December 2005
created on a statutory basis based on the write-off from financial result	1 249	1 200
created as per the Articles of Association based on the write-off from financial result	158 765	126 916
created from share issue premium	71 202	71 202
created from share-based payments	1 050	1 050
TOTAL	232 266	200 368

Equity of the parent company in the hyperinflationary period

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

1. 18.12.1989 – establishment of the Company and contribution of the initial capital of PLN 200.00 (after denomination)
2. 04.05.1995– acquisition of the Company by Mr Marek Piechocki and Mr Jerzy Lubianiec
3. 12.04.1995– registration of the increase of share capital up to PLN 700 k
4. 24.10.1995– adoption of a resolution to increase the Company's share capital to PLN 1,500 k
5. 04.01.1996– adoption of a resolution to increase the Company's share capital to PLN 2,200 k

PLN '000

Years	Opening balance equity	Increase	Inflation	Days	Inflation rate	Equity 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) equity as at the end of 1995 + retained result for 1995
2) equity increase + share premium

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

13.9 Grants

As at 31 December 2006, the amount of Government grants used by the Group was as follows:

- grant to salaries and insurance premiums of the disabled employees from the State Fund for Rehabilitation of the Disabled,
- grant for the staff training programme from the European Union.

13.10 Provisions

As at the balance sheet date, the Group recognised the total of PLN 5,889 k in provisions under liabilities in the balance sheet.
This amount includes:

- deferred tax provision (cf. 14.18)
- provision for retirement benefits and similar benefits
- provision for holiday leaves not taken
- provision for liabilities.

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

Provision for holiday leaves not taken
The Group also creates a provision for holiday leaves not taken, i.e. for the future payments of amounts payable to employees for their on-going services.

Provision for liabilities
A provision for future liabilities whose payment is certain or highly probable also established.

PLN ‘000

CHANGE IN PROVISIONS	provision for retirement benefits and similar benefits	provision for holiday leaves not taken	provision for liabilities
As at 1 January 2006	287	883	45
- increase of the provision	77	1 177	76
- use of the provision	0	783	47
- foreign exchange differences	0	2	1
as at 31 December 2006	364	1 279	75

13.11 Contingent liabilities

In 2006, Capital Group companies used bank guarantees to secure payment of rent for the leased retail premises where brand stores are located.

In 2006, 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 26 February 2006, valid until 6 March 2006. The guarantee limit is PLN 18 million.
- Insurance contract of 15 October 2006, valid until 14 October 2007, concluded with Allianz Polska S.A. in Warsaw. The policy covers the insurance of all assets of LPP S.A., including brand stores.

The total amount of all bank guarantees granted at the request and on the responsibility of LPP S.A. as at 31 December 2006 was PLN 55,415 k, of which:

- guarantees granted to secure agreements concluded by LPP S.A. – PLN 6,386 k
- guarantees granted to secure agreements concluded by consolidated related parties – PLN 34,042 k
- guarantees granted to secure agreements concluded by non-consolidated related parties – PLN 14,754 k
- guarantees granted to secure agreements concluded by third parties – PLN 233 k.

As at 31 December 2006, the total amount of all sureties issued by the parent company was PLN 7,112 k, up by PLN 2,600 k vs. 31 December 2005.

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

13.12 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.

The total future minimum payments under lease agreements, estimated as at 31 December 2006, are as follows:
- payables with the maturity date within 12 months from the balance sheet date PLN 111,949 k
- payables with the maturity date from 12 months to 5 years from the balance sheet date PLN 296,149 k
- payables with the maturity date over 5 years from the balance sheet date PLN 77,534 k

Under expenses of the reporting period from 1 January to 31 December 2006, the amount of PLN 99,530 k is disclosed, resulting from the minimum and contingent payments of rent for the lease of retail premises. The amount of contingent rent is immaterial and was not presented separately.
Provisions of fixed-term lease agreements from which these payments arise are typical for this type of contracts. Apart from the minimum rent, these agreements usually provide for the 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 about 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 a possible renewal of the contract for another period, at the option of the lessee. As these retail lease agreements refer to premises located mainly in large shopping malls, they do not provide for the purchase of premises.

13.13 Borrowings (credits)

As at 31 December 2006, the Company's payables related to bank credits were as follows:
PLN '000

Bank	Utilisation of credits as at 31 December 2006		Credit costs	Maturity date
	in PLN '000	foreign currency in '000		
PKO BP S.A.	51 540		WIBOR 1 m + bank's margin	23-06-2008
BPH S.A.	20 835		WIBOR 1 m + bank's margin	31-07-2007
Fortis Bank Polska S.A.	40 260		WIBOR 1 m + bank's margin	30-10-2007
Raiffeisen Bank Polska S.A.	3	USD 1	LIBOR 1 m + bank's margin	30-05-2008
Raiffeisen Bank Polska S.A.	11 037		WIBOR 1 m + bank's margin	30-05-2008
ZAO Raiffeisenbak Austria	5 215	RUB 46 996	RBRU's overdraft rate + bank's margin	31-07-2007
Bayerische Hypo und Vereinsbank AG	1 920	EUR 500	EURIBOR 1 m + bank's margin	31-12-2007

HVB Praga	4 329	CZK 31 071	PRIBOR + bank's margin	31-12-2007
TOTAL	135 139			

Bank credits amounted to PLN 135,139 k, of which:

- long-term credits – PLN 11,000 k
- short-term credits – PLN 124,139 k.

The amount of PLN 11,000 k represents a long-term credit incurred in Raiffeisen Bank Polska S.A.

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

Bank	Utilisation of credits as at 31 December 2005		Credit costs	Maturity date
	in PLN '000	foreign 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.	20 793		WIBOR 1 m + bank's margin	30-04-2007
Raiffeisen Bank Polska S.A.	1 019	USD 300	LIBOR 1 m + bank's margin	30-04-2007
Bayeische Hypo und Vereinsbank AG	1 920	EUR 497	EURIBOR 1 m + bank's margin	15-12-2006
HVB Praga	4 129	CZK 31 071	PRIBOR + bank's margin	30-11-2006
TOTAL	139 482			

Bank credits amounted to PLN 139,482 k, of which:

- long-term credits – PLN 11,000 k
- short-term credits – PLN 128,482 k.

The amount of PLN 11,000 k represents a long-term credit incurred in Raiffeisen Bank Polska S.A.

Detailed data on bank credits as at the balance sheet date is as follows:

Bank	Type of credit/line	Credit amount and currency		Security
		amount in '000	currency	
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 from the insurance policy, blank promissory notes
Fortis Bank Polska S.A.	multi currency credit line	100 000	PLN	blank promissory note
Raiffeisen Bank Polska S.A.	multi-purpose multi currency credit line	100 000	PLN	blank promissory note
ZAO Raiffeisen Bank Austria	credit line*	47 000	RUB	guarantee of Raiffeisen Bank Polska S.A.
Bayerische Hypo und Vereinsbank AG	credit line*	500	EUR	guarantee of BPH S.A.
HVB Praga	credit line*	48 500	CZK	guarantee of BPH S.A.

* within the limit of a multi-purpose line in Raiffeisen Bank Polska and BPH SA

13.14 Trade and other payables

PLN '000

SHORT-TERM PAYABLES	31.12.2006	31.12.2005
1) in respect of subsidiaries	2 567	1 931
- trade receivables	2 567	1 931
2) in respect of other entities	115 201	52 283
- trade receivables	102 241	46 517
- taxes, customs duties, insurance and other benefits	10 938	4 600
- salaries	1 789	1 088
- other	233	78
TOTAL	117 768	54 214

13.15 Prepaid expenses

Long-term prepaid expenses as at 31 December 2006 totalled PLN 28 k, of which the main item was the prepaid commission on bank credits.

Short-term prepaid expenses as at 31 December 2006 totalled PLN 3,360 k, of which:

PREPAID EXPENSES	31.12.2006	31.12.2005
Prepaid rent for the lease of retail premises to be settled within 12 months from the balance sheet date	1 840	1 406
Costs of customs guarantees and insurance	529	405
Supervision of software	453	59
Commissions on bank credits	0	143

Other	538	591
TOTAL	3 360	2 604

13.16 Revenues

PLN '000

REVENUES	01.01.06-31.12.06	01.01.05-31.12.05
1) net revenues from sales of services	7 196	4 901
2) net revenues from sales of goods and materials	807 939	680 950
TOTAL	815 135	685 851

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 related to the management of brand stores by Polish contractors,
- rental of own transport vehicles.

PLN '000

OTHER OPERATING REVENUES	01.01.06-31.12.06	01.01.05-31.12.05
1. Profit from sale of non-financial fixed assets	129	487
2. Grants	204	191
3. Other operating revenues	4 481	5 351
TOTAL	4 814	6 029

PLN '000

FINANCIAL REVENUES	01.01.06-31.12.06	01.01.05-31.12.05
1. Dividends	1 137	0
2. Interest	410	663
3. Other, including:	4 959	28
- balance of foreign exchange differences	4 919	0
TOTAL	6 506	691

13.17 Expenses

PLN '000

EXPENSES BY TYPE	01.01.06-31.12.06	01.01.05-31.12.05
1) depreciation and amortisation	41 466	30 779
2) consumption of materials and energy	25 094	22 567
3) outsourced services	229 891	188 346
4) taxes and fees	1 772	2 029
5) salaries	50 659	37 181
6) social security and other benefits, including:	12 691	9 066
- pension contribution	2 993	3 597
7) other expenses (by type)	29 807	23 805
TOTAL	391 380	313 773
Change in products	-119	287
Selling costs and general administrative expenses recognised in the profit and loss account	391 499	313 486

PLN '000

OTHER OPERATING EXPENSES	01.01.06-31.12.06	01.01.05-31.12.05
1) Loss from sale of non-financial fixed assets	42	0
2) Revaluation of non-financial assets	3 505	2 704
3) Other	7 009	5 277
TOTAL	10 556	7 981

PLN '000

FINANCIAL EXPENSES	01.01.06-31.12.06	01.01.05-31.12.05
1) Interest	6 788	5 824
- other, including:	829	1 551
- commission on bank credits and guarantees	829	508
- balance of foreign exchange differences	0	977
TOTAL	7 617	7 375

13.18 Income tax

The main elements of the Group's taxation for 2006 and the comparative period are as follows:

in PLN '000

Profit and loss account	2006	2005
Current income tax	13 417	10 149
Deferred income tax	(3 898)	1 903
TOTAL	9 519	12 052

Reconciliation of income tax disclosed in the consolidated profit and loss account for 2006 and 2005 is presented in the table below.

PLN '000

CURRENT INCOME TAX	2006	2005
Group's gross profit/loss before consolidation adjustments	48 705	33 015
Adjustment of non-taxable revenues and costs	3 349	20 552
Group's gross profit/loss after consolidation adjustments	52 054	53 567
Income tax at the average 18.62% and 19.06% tax rate	9 692	10 212
Tax consolidation adjustments	78	2 020
Adjustment of tax resulting from depreciation-related temporary differences	132	0
Tax reliefs	(383)	(210)
Adjustment of income tax from previous years		22
Other tax adjustments	0	8
Income tax disclosed in the P&L account	9 519	12 052

Current and deferred income tax is calculated at the following tax rates:

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

The amount of deferred income tax assets and provision disclosed in the balance sheet results from the items and amounts presented in the tables below.

PLN '000

DEFERRED INCOME TAX ASSETS	31.12.2006	31.12.2005
surplus of balance sheet depreciation of PP&E over tax-based depreciation	2 280	1 342
foreign exchange differences – payables	1 681	513
revaluation of trade receivables	445	564
revaluation of PP&E	235	288
margin on goods not sold outside the Group	2 045	871
revaluation of inventory	308	88
other temporary differences	1 656	690
TOTAL	8 650	4 356

PLN '000

PROVISION FOR DEFERRED INCOME TAX	31.12.2006	31.12.2005
accelerated tax-based depreciation (capital cost allowance)	3 850	3 530
damages not received	83	0
other	238	203
TOTAL	4 171	3 733

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

Deferred income tax recognised in the P&L account for 2006 and 2005 results from the following items:

DEFERRED INCOME TAX ASSETS	2006	2005
surplus of balance sheet depreciation of PP&E over tax-based depreciation	987	640
foreign exchange differences – payables	1 176	(561)
revaluation of trade receivables	(68)	(148)
margin on goods not sold outside the Group	1 174	228
revaluation of PP&E	(53)	61
revaluation of inventory	213	(225)
other temporary differences	916	185
TOTAL	4 345	180

PLN '000

PROVISION FOR DEFERRED INCOME TAX	2006	2005
accelerated tax-based depreciation (capital cost allowance)	340	1 945
damages not received	83	0
other	24	138
TOTAL	447	2 083

If a decision is made to pay out dividends to shareholders, income tax shall be deducted.
In the case of Polish shareholders, 19% tax will be deducted; in the case of foreign shareholders, the income tax deduction will depend on the terms and conditions of the applicable double taxation agreement.

13.19. 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.

13.19.1 Key management 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 2006 was PLN 1,199 k.

Employee benefits of each member of key management personnel were as follows:

Marek Piechocki	- President of the Board	PLN 360 k
Alicja Milińska	- Vice President of the Board	PLN 240 k
Dariusz Pachla	- Vice President of the Board	PLN 240 k
Stanisław Dreliszak	- Vice President of the Board	PLN 239 k
Aleksander Moroz	- Vice President of the Board	PLN 120 k (for the period from July to December 2006)

Chairman of the Supervisory Board – PLN 12 k (for services other than membership in the Supervisory Board).

Members of the key management personnel are involved in the management of related parties, but receive no compensation or bonuses for these services.

In the reporting period, no material transactions between the Group and members of its key management personnel were recorded.

13.19.2 Related party transactions

PLN '000

No.	RELATED PARTIES	payables as at 31 December 2006	receivables as at 31 December 2006	revenues in 2006	expenses in 2006
1.	Polish subsidiaries – total	2 567	944	96	44 418
TOTAL		2 567	944	96	44 418

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	1 931	242	93	35 511
TOTAL		1 931	242	93	35 511

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

In the reporting period, no material transactions were concluded between the Group and entities controlled by or significantly influenced by members of key management personnel and their close family members, as per IAS 24.

13.20 Segment reporting

Financial results and other information on geographical segments for the period from 1 January 2006 to 31 December 2006, as well as for the comparative period, are presented in the tables below.

FY 2006 in PLN '000

	Member States of the European Union	Other countries	Consolidation adjustments	Amounts not allocated to segments	Total
External sales	763 398	51 737			815 135
Intersegment sales	36 073		(36 073)		-
Other operating revenues	4 677	8		129	4 814
Total revenues	804 148	51 745	(36 073)	129	819 949
Total operating expenses, including:	691 753	49 120	(32 558)		708 315

Costs of intersegment sales	27 511		(27 511)		-
Other operating expenses	10 163	350		49 468	59 981
Segment result	102 232	2 275	(3 515)	(49 339)	51 653
Financial revenues				6 506	6 506
Financial expenses				7 617	7 617
Profit before tax					50 542
Income tax					9 519
Net profit					41 023

Segment assets	458 728	63 548	(42 366)		479 910
Assets of the entire Group not allocated to segments				56 064	56 064
Total consolidated assets					535 974
Segment liabilities	114 400	45 581	(63 715)		96 266
Liabilities of the entire Group not allocated to segments				166 423	166 423
Total consolidated liabilities					262 689

Other disclosures	Member States of the European Union	Other countries
Segment investment outlays	32 523	18 854
Segment depreciation and amortisation	32 927	3 499
Impairment write-downs	3 418	87
Reversal of impairment write-downs	1 745	-
Other non-monetary costs	6 746	263

FY 2005 in PLN ‘000

	Member States of the European Union	Other countries	Consolidation adjustments	Amounts not allocated to segments	Total
External sales	664 568	21 284			685 852
Intersegment sales	10 713		(10 713)		-
Other operating revenues	5 492	51		487	6 030
Total revenues	680 773	21 335	(10 713)	487	691 882
Total operating expenses, including:	577 505	18 199	(10 143)		585 561
Costs of intersegment sales	8 308		(8 308)		-
Other operating expenses	7 617	366		39 549	47 532
Segment result	95 651	2 770	(570)	(39 062)	58 789
Financial revenues				692	692
Financial expenses				7 376	7376
Profit before tax					52 105
Income tax					12 052
Net profit					40 053

Segment assets	386 634	18 488	(14 330)		390 792
Assets of the entire Group not allocated to segments				43 944	43 944
Consolidated total assets					434 736
Segment liabilities	53 929	18 996	(16 306)		56 619
Liabilities of the entire Group not allocated to segments				145 666	145 666
Total consolidated liabilities					202 285

Other disclosures	Member States of the European Union	Other countries
Segment investment outlays	44 374	4 943
Segment depreciation and amortisation	25 443	1 488
Impairment write-downs *	2 488	216
Reversal of impairment write-downs *	3 043	-
Other non-monetary costs	5 128	150

* Impairment write-downs of segment assets disclosed in the P&L account include:

- revaluation write-downs of receivables;
- revaluation write-downs of inventories;
- revaluation write-downs of property, plant & equipment.

Write-downs and their subsequent reversals were made when overdue receivables, uncollectible receivables, or any impairment of inventories or PP&E were identified or subsequently ceased to exist.

Marek Piechocki

President of the Management Board

Alicja Milińska

Vice-President of the Management Board

Stanisław Dreliszak

Vice-President of the Management Board

Dariusz Pachla

Vice-President of the Management Board

Aleksander Moroz

Vice-President of the Management Board

Gdańsk, 24 April 2007

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 in the total volume of the Capital Group's sales, and information on any changes thereof during the fiscal year.

LPP S.A. Capital Group is composed of 19 Polish companies and 7 foreign companies. The financial statement of LPP S.A. Capital Group covering the period between 1 January and 31 December 2006 includes individual results of LPP S.A. for the said period and results of consolidated companies listed below (covered by the consolidated financial statement drawn up as at 31 December 2006):

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. The 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, whose task is to outsource the production of individual products to manufacturing 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.

Source of revenues	2006		2005	
	PLN '000	share in sales volume %	PLN '000	share in sales volume %
Sales of trading commodities	807 939	99.12%	680 951	99.30%
Sales of services	7 196	0.88%	4 901	0.70%
Total	815 135	100.00%	685 852	100.00%

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

Distribution channel	2006 PLN ‘000	2006 share in sales volume %	2005 PLN ‘000	2005 share in sales volume %
Reserved brand stores	583 880	71.6%	491 892	71.7%
Exports	24 628	3.0%	18 015	2.6%
Cropp brand stores + Cropp wholesale customers	147 092	18.1%	118 822	17.3%
Other	59 535	7.3%	57 123	8.3%
Total	815 135	100.%	685 852	100.0%

2. Information on markets (Polish and foreign) and 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	country	revenues from sales from 1 January 2006 to 31 December 2006	revenues from sales from 1 January 2005 to 31 December 2005
LPP S.A.	Poland	641 791	583 387
LPP Retail Estonia OU	Estonia	21 867	15 623
LPP Retail Latvia Ltd	Latvia	20 780	12 977
LPP Retail Czech Republic s.r.o.	Czech Republic	43 899	29 214
LPP Hungary Kft.	Hungary	12 342	9 689
UAB "LPP"	Lithuania	22 720	13 677
LPP Ukraina AT	Ukraine	14 171	10 778
ZAO "Re Trading"	Russia	37 566	10 506
Total:		815 135	685 851

Export sales to entities other than Capital Group companies were run by LPP S.A. only and totalled PLN 24,629 k, i.e. 3.9% of the total revenues. Presented below are the main directions of export sales of the Capital Group.

country	2006		country	2005	
	exports value in PLN '000	share in exports %		exports value in PLN '000	share in exports %
Slovakia	15 069	61.2%	Slovakia	8 844	49.1%
Russia	4 827	19.6%	Russia	5 345	29.7%
Ukraine	2 640	10.7%	Ukraine	1 704	9.5%
Lithuania	488	2.0%	Lithuania	759	4.2%
Czech Republic	739	3.0%	Czech Republic	436	2.4%
Latvia	282	1.1%	Latvia	362	2.0%
Other	583	2.4%	Other	565	3.1%
Total	24 628	100.0%	Total	18 015	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 74.0% of the total purchase volume. Additionally, the Company purchased goods from Polish producers (8.3%). The remaining volume of sales was divided between other European countries (4.3%) and other Asian countries (13.5%). 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 specific 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. No customer's share in the total sales volume in the Capital Group exceeded 10%.

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

Key achievements of LPP S.A. Capital Group in 2006:

1. Revenues from sales of LPP S.A. Capital Group amounted to PLN 815 m and were up by 18.9% vs. the previous year.

2. In 2006, LPP S.A. Capital Group generated net profit of PLN 41 m, up by 2.4% vs. 2005 (PLN 40 m).

3. In 2006, the total value of goods sold in retail distribution channels amounted to PLN 731 m, of which 79.9% in Reserved brand stores and 20.1% in Cropp Town brand stores (compared to 603 m in the previous year, of which 82% for Reserved, and 18% for Cropp). Sales volumes of foreign subsidiaries totalled PLN 173 m (of which PLN 153 m for Reserved and PLN 20 m for Cropp Town), i.e. up by 68.6% vs. 2005.

4. The total selling area in brand stores was up by approx. 22 thousand square meters (i.e. approx. 23.5%). The total retail selling area in the entire LPP S.A. Capital Group amounted to approx. 118 thousand square metres, of which approx. 43 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. Results of sales of the spring/summer collection in 2006 were not satisfactory. Just as the 2005 autumn/winter collection, the 2006 spring/summer collection did not meet expectations of our customers; as a result, LPP S.A. CG generated no profits in the first three quarters of 2006. However, the design of the 2006 autumn/winter collection was different than the previous two collections. This collection was very successful; as a result, LPP S.A. CG recorded very good results in Q4 and closed the year with the net profit slightly higher than in the previous year.

At the same time, FY 2006 was another year which saw the expansion of LPP CG outside of Poland. In this period, the total selling area abroad increased by 63% (from 26 thousand square meters in 2005 to 43 thousand square meters as at 31 December 2006).

Presented below are basic economic and financial figures.

Item	2006 in PLN ‘000	2005 in PLN ‘000	change %
net revenues from sales	815 135	685 851	18.9%
profit on sales before tax	448 894	374 227	20.0%
profit on sales	57 395	60 741	-5.5%
operating profit	51 653	58 789	-12.1%
profit on ordinary operations	50 542	52 105	-3.0%
net profit	41 023	40 053	2.4%
equity	273 285	232 450	17.6%
payables	261 252	201 274	29.8%
long-term payables	15 544	15 058	3.2%
short-term payables:	245 708	186 216	32.0%
bank loans	124 139	128 482	-3.4%
in respect of suppliers	117 768	54 214	117.2%
fixed assets	217 143	195 431	11.1%
current assets	318 831	239 305	33.2%
inventories	232 781	171 566	35.7%
short-term receivables	50 471	37 653	34.0%

Increase in revenues from sales by 18.9% was achieved mainly based on the development of the Reserved and Cropp Town network (increasing the total selling area in Poland and abroad by approx. 23.5%). Gross profit margin reached 55.1%, i.e. was slightly higher vs. the previous year (54.6%)

Profit on sales was down by 5.5%, which was attributable mainly to the lower growth rate of revenues and relatively high increase of costs (costs of sales were up by 24.9% and general administrative expenses were up by 25.0%).

Operating profit totalled PLN 51,653 k (down by 12.1% vs. 2005), and the operating profit margin amounted to 6.3% (in the previous year: PLN 58,789 k and 8.6%, respectively). Profit on ordinary operations was down by 3.0% vs. the previous year and totalled PLN 50,542 k.

Net profit generated in 2006 totalled PLN 41,023 k, up by 2.4% against the previous year (PLN 40,053 k). The resulting net profit margin amounted to 5.0% against 5.8% in the previous year.

Shareholder's equity of LPP S.A. was up by 17.6% in 2006. It was mainly caused by the transfer of generated profit to equity.

Long-term payables remained at a level similar to that of the corresponding period in the previous year.

Short-term payables were up by over 32.0%. It was due mainly to the increase in trade payables by 117.2% (up to PLN 117,768 k) and a drop in short-term bank loans (down by 3.4%).

In the reporting period, the balance of fixed assets was up by 11.1% as a result of large investments, mainly capital expenditure in the Reserved and Cropp Town brand stores.

Current assets were up by 33.2% against the end of 2005. It was caused mainly by the increase in short-term receivables (up by 34.0%), and inventories (up by 35.7%).

a) profitability ratios

Values of profitability ratios presented in the table below result directly from factors described above, which determine the 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	2006 %	2005 %	change
gross profit margin on sales	55.1%	54.6%	0.5%
operating profit margin	6.3%	8.6%	-2.2%
net profit margin (ROS)	5.0%	5.8%	-0.8%
Return on Assets (ROA)	8.5%	10.70%	-2.2%
Return on Equity (ROE)	16.2%	18.90%	-2.7%

b) liquidity ratios

Liquidity ratios presented below remained at safe 2005 levels. LPP S.A. Capital Group takes actions mainly to improve the inventory turnover ratio (days in inventory).

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	2006	2005	change %
liquidity ratio I (current ratio)	1.3	1.3	0.97%
liquidity ratio II (quick ratio)	0.4	0.4	-3.73%
days in inventory	199	175	13.56%
days in receivables	19	16	21.62%
days in trade payables	85	48	76.1%

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 in equity caused by losses made 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	2006 %	2005 %	change %
fixed assets to equity ratio	125.9%	118.9%	6.91%
total debt	48.7%	46.3%	2.45%
short-term debt	45.8%	42.8%	3.01%
long-term debt	2.9%	3.5%	-0.6%

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

In 2006, 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 26 February 2006, valid until 6 March 2006. The guarantee limit is PLN 18 million.
- Insurance contract of 15 October 2006, valid until 14 October 2007, concluded with Allianz Polska S.A. in Warsaw. The policy covers the insurance of all assets of LPP S.A., including brand stores.
- In 2006, the Capital Group companies concluded 42 new lease agreements with distributors of retail premises. These agreements are related to lease of premises where the Reserved, Cropp, and Esotiq clothing is sold.
- In 2006, the LPP Capital Group companies 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 13.13).

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

Investments made by the LPP S.A. Capital Group are mainly associated with the related parties. The total value of shares in non-consolidated related parties amounts to PLN 718 k. In addition, loans granted by LPP Capital Group to third parties amount to PLN 1,855 k.

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 2006 was PLN 27,799 k.

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 2006 was PLN 11,893 k.

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 2006 was PLN 11,711 k.

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 2006 was PLN 7,414 k.

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 2006 was PLN 12,281 k.

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 2006 was PLN 7,087 k.

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 2006 was PLN 28,987 k.

h. Compensation paid to the subsidiary company SL&DP Sp. z o.o. for the rent of retail premises, of the total value of PLN 2,557 k in 2006.

i. Compensation paid to the subsidiary company GM&PL Sp. z o.o. for the rent of retail premises, of the total value of PLN 3,532 k in 2006.

j. Compensation paid to the subsidiary company PL&GM Sp. z o.o. for the rent of retail premises, of the total value of PLN 2,450 k in 2006.

k. Compensation paid to the subsidiary company LIMA Sp. z o.o. for the rent of retail premises, of the total value of PLN 2,439 k in 2006.

l. Compensation paid to the subsidiary company AMA Sp. z o.o. for the rent of retail premises, of the total value of PLN 3,389 k in 2006.

m. Compensation paid to the subsidiary company AMUR Sp. z o.o. for the rent of retail premises, of the total value of PLN 4,113 k in 2006.

n. Compensation paid to the subsidiary company AMUK Sp. z o.o. for the rent of retail premises, of the total value of PLN 4,116 k in 2006.

o. Compensation paid to the subsidiary company AKME Sp. z o.o. for the rent of retail premises, of the total value of PLN 2,523 k in 2006.

p. Compensation paid to the subsidiary company DP&SL Sp. z o.o. for the rent of retail premises, of the total value of PLN 4,037 k in 2006.

r. Compensation paid to the subsidiary company AMUL Sp. z o.o. for the rent of retail premises, of the total value of PLN 2,113 k in 2006.

s. Compensation paid to the subsidiary company KUMA Sp. z o.o. for the rent of retail premises, of the total value of PLN 2,732 k in 2006.

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 and loans incurred as at 31 December 2006 and their maturity is presented in Notes to the consolidated financial statement in section 13.13.
In 2006, the Capital Group companies used bank guarantees to secure payment of rent for the 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 2006, the total value of all bank guarantees granted at the request and on the responsibility of LPP S.A. amounted to: PLN 55,415 k, of which:

a) guarantees granted to secure agreements concluded by LPP S.A. – PLN 6,386 k
b) guarantees granted to secure agreements concluded by consolidated related parties – PLN 34,042 k
c) guarantees granted to secure agreements concluded by non-consolidated related parties – PLN 14,754 k
d) guarantees granted to secure agreements concluded by third parties – PLN 233 k

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 as a security for payables of the company's customers in respect of the bank	7 000	30.06.2007
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 2006.

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

On 17 February 2006, the Issuer published the following forecast of consolidated financial results of LPP S.A. Capital Group for 2005: revenues of PLN 820 m, net profit of PLN 57 m (current report no. 7/2006). On 10 November 2006, the forecast was adjusted to PLN 820 m in revenues and PLN 42 m in net profit (current report no. 40/2006). Results generated in 2006 presented in the annual report are not materially different from the forecast results.

11. Assessment (and its rationale) of financial assets management, with particular focus on the repayment ability, 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 the modification of the Group's business model, which has been 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 fully secure the 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 implemented based on the Capital Group's own funds and borrowings (bank credits). The Management Board intends to ask shareholders not to pay out dividends and transfer 100% of earnings generated in 2006 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 2006.

14. Description of external and internal key factors influencing the development of the Issuer's enterprise and description of perspectives for the 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) develop a network of brand stores in Poland and in Central and Eastern Europe,
b) create strong clothing brands (Reserved and Cropp).

Achievement of the Capital Group'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 the design and distribution of clothing as well as on the brand building process while outsourcing many activities to third parties. It has no production capacity of its own and has no intention to build its own production sites. As a result, the goal of all investments is to increase the Company's trading potential, maintain its competitive edge on the market, develop its own network of distribution, create good image of LPP S.A. Capital Group on the clothing market, gain customers and ensure their loyalty to the Company and its products.

b) The Group's market position

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

c) Extending and renewing the portfolio of products offered to customers

Products marketed by LPP S.A. meet the expectations of the target customers groups related 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. In mid-2005, the collection offered to the Reserved customers was of a more daring design; the same style prevailed in collections marketed in the first three quarters of 2006. However, this offer was not successful with the customers, and only the modified collection (2006 autumn/winter) gave the Capital Group a chance to improve its performance. Extension of the portfolio is not limited only to adding new models within a given clothing category (such as the creation of a new sub-brand RE-Kids for children), but also includes the creation of new brands, such as Esotiq (brand of the new underwear collection).

External factors

a) Changes and development of the 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 the 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) 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.

The on-going analyses of USD and EURO exchange rates (currencies used in settlements with foreign customers and suppliers) 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 Group's business, it is possible to partially pass 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 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 any significant increase of total costs in this area, just as in the case of product prices.

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

Buyers of products offered by LPP SA Capital Group have specific requirements based on a number of various factors. As LPP SA CG sells products considerably influenced by trends in fashion, it is fashion that we focus primarily on. The design department keeps in touch with the ever-changing trends, trying to adapt these to the needs of our customers and offer the desired products with a good price-to-quality ratio. To achieve these goals, our design team takes part in major exhibitions around the world, looks for information in the industry publications, and keeps in touch with the latest developments in fashion on the Internet. LPP S.A. CG finds it very important to be up-to-date with the latest trends, knowing that fashion has major impact on its performance.

Perspectives for the development of the Capital Group's business

As in the previous years, the Company assumes further development of the Reserved and Cropp retail network of brand stores. As at the end of 2006, 246 stores were open with the total selling area of approx. 117,700 square metres. In 2007, the Group is planning to open new stores and increase the total area of the brand stores network up to approx. 153,000 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 IAS regarding the principles of recognition, measurement, disclosure and presentation of financial instruments, the following financial instruments were identified by the Capital Group:

- loans granted
- bank credits incurred
- overnight 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 the sale of trading commodities to foreign customers.

In line with the IAS regarding the principles of recognition, measurement, 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 the previous periods, any potential increase of this parameter determining the amount of borrowing costs cannot have any significant impact on the 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 the basic principles of management of the Issuer's business and its Capital Group

In 2006, 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 2006, there were no changes in the composition of the Management Board and Supervisory Board of LPP S.A. Mr Aleksander Moroz was appointed Vice-President of the Management Board, as announced in the current report no. 22/2006, and Mr Andrzej Puślecki was appointed member of the Supervisory Board (current report no. 23/2006).

Statements of will shall be made for on behalf of the Company by the President of the Management Board individually or by two Management Board members jointly. 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	1 955	1 955	3 910
Vice-President of the Management Board	2 794	2 794	5 588
Vice-President of the Management Board	2 071	2 071	4 142
Chairman of the Supervisory Board	246 338	946 338	492 676

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 2006, 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 Lubianiec	246 338	946 338	30.49%	14.46%
Grangefont Limited, headquartered in London, UK	350 000	350 000	11.28%	20.55%
Commercial Union OFE BPH CU WBK S.A. (CU OFE)	214 954	214 954	6.93%	12.62%

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 the employee share option schemes.

Not applicable.

26. Information on any limitations of the transfer of titles to securities of LPP Capital Group and any limitations of the exercise of 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 1,320 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 apply to Mr Marek Piechocki and Mr Jerzy Lubianiec.

27. Agreements concluded between the Company and members of its Management Board providing for the 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 13.19.1. of the Notes to the financial statement.

29. Entity entitled to audit financial statements:

On 27 June 2006, 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 2006, 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 2006; and 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 2007, 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 2007.

The total amount of net fee due or paid under the above agreements is approx. PLN 225.0 k.

In the previous fiscal year, HLB Frąckowiak i Wspólnicy Sp. z o.o. was paid PLN 81.0 k under the agreement and PLN 24.8 k for an analysis of the Company's financial and accounting system for compliance with IAS, and well as for tax consulting services.

Marek Piechocki

President of the Management Board

Alicja Milińska	*Stanisław Dreliszak*	*Dariusz Pachla*	*Aleksander Moroz*
Vice-President of the Management Board	Vice-President of the Management Board	Vice-President of the Management Board	Vice-President of the Management Board

STATEMENT OF THE MANAGEMENT BOARD OF LPP S.A.

STATEMENT OF THE MANAGEMENT BOARD

In line with provisions of the Ordinance of 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 the 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 audited the annual consolidated financial statement was appointed in line with the applicable legal provisions currently in effect. This entity and certified auditors who audited the financial statement satisfied all conditions required to produce an impartial and independent audit report, as per the applicable provisions of the Polish law.

The Management Board of LPP S.A.:

Marek Piechocki..

Alicja Milińska..

Dariusz Pachla..

Stanisław Dreliszak...

Aleksander Moroz...

Gdańsk, 24 April 2007