CONSOLIDATED ANNUAL REPORT OF LPP S.A. GROUP FOR THE YEAR 2010

INCLUDING:

- A LETTER FROM THE PRESIDENT OF THE MANAGEMENT BOARD TO THE SHAREHOLDERS
- SELECTED FINANCIAL DATA FOR 2010 AND 2009
- CONSOLIDATED FINANCIAL STATEMENTS
- MANAGEMENT BOARD REPORT ON LPP S.A. CAPITAL GROUP OPERATIONS (WITH A CORPORATE GOVERNANCE STATEMENT OF COMPLIANCE)
- STATEMENTS OF THE MANAGEMENT BOARD

April 2011

A LETTER FROM THE PRESIDENT OF THE MANAGEMENT BOARD TO THE SHAREHOLDERS

Dear Shareholders,

Despite the fact that the year 2010 was still difficult and we managed to increase our revenues only by 4% compared with 2009, we achieved a good financial result. The net profit amounts to PLN 139 million, which represents an increase over the previous year by 33%. Achieving this result was possible mainly due to two factors: maintaining the operating costs on a low level and an appreciable improvement of sales in the fourth quarter of last year. After seven quarters, this was the first one when a noticeable increase of sales in comparable outlets occurred.

The development of our company measured by the increase in the surface of the retail networks was less intense in 2010, nevertheless, we opened many new outlets which contributed to the increase of the surface of our retail chains by 35 thousand m2, i.e. by 12 %. By the end of the year, we ran 921 outlets of a total area of 323 thousand m2.

Our outlets offer consumers a wide range of products in 11 countries. Markets where we sell offer tremendous opportunities as there are about 280 million people living in this region. In most of these countries we have a very high competitive position or by our participation in the modern trade development we belong to the group of companies which first appear in the emerging shopping centres. This has been the model of our development and we are going to continue to follow it focusing on the region where we are already present. In the nearest future we are not planning to expand the portfolio of our brands nor to change the scope of activity in the geographical terms. For 2011 we have planned to increase the surface of our networks at a level close to the one performed in previous year, and it will be most intense in Poland and Russia.

While implementing our development plans we will not forget about our second important objective, namely to increase the efficiency of our operations. We experienced a long period of the reduction of costs which we adjusted in the years 2009-2010 to the revenues obtained from each square meter of the surface of our outlets. At present, our priority is the growth of the revenues which with prudential approach to costs will ensure the improvement of efficiency. The increases of revenues achieved by us in recent months are so significant that I am convinced that in 2011 and subsequent years we will achieve results satisfactory to all shareholders of LPP.

President of the Management Board

Marek Piechocki

SELECTED CONSOLIDATED FINANCIAL DATA FOR THE YEARS 2010 AND 2009

Selected financial data – consolidated statement

Selected Financial Data	2010	2009	2010	2009
	in PLN '000		in EUR '000	
Net revenues from sales of products, goods and materials	2 079 358	2 003 095	519 268	461 479
Operating profit (loss)	200 687	181 278	50 117	41 763
Gross profit (loss) from continuing operations	181 720	140 576	45 380	32 386
Net profit (loss) from continuing operations	138 460	105 794	34 577	24 373
Net cash flows from operating activity	197 462	318 099	49 311	73 285
Net cash flows from investments	-130 556	-71 177	-32 603	-16 398
Net cash flows from financial activity	-167 917	-139 271	-41 933	-32 086
Total net cash flows	-101 011	107 651	-25 225	24 801
Total assets	1 429 020	1 361 603	360 836	331 435
Long-term liabilities	281 231	347 725	71 013	84 642
Short-term liabilities	411 243	328 289	103 841	79 911
Equity capital	736 546	685 589	185 982	166 883
Share capital	3 501	3 501	884	852
Weighted average number of ordinary shares	1 728 879	1 726 514	1 728 879	1 726 514
Profit (loss) from continuing operations per ordinary share (in PLN / EUR)	80.09	61.28	20.00	14.12
Profit (loss) from discontinued operations per ordinary share (in PLN / EUR)	0.36	-0.67	0.09	-0.15
Book value per share (in PLN / EUR)	426.03	397.09	107.57	96.66
Declared or paid dividend per share (in PLN / EUR)	50.00		12.63	

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

Marek Piechocki

President of the Management Board

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

CONSOLIDATED FINANCIAL STATEMENTS OF LPP S.A.
For the financial year ended 31 December 2010

1. Consolidated Balance Sheet

Balance Sheet	Notes	As at	
		31/12/2010	31/12/2009
ASSETS			
Fixed assets (long-term)		712 574	739 993
1. Tangible fixed assets	14.1	422 456	442 117
2. Intangible assets	14.3	11 040	12 763
3. Goodwill	14.4	183 609	183 609
4. Trademark	14.3	77 508	77 508
5. Shares in subsidiaries	14.5	212	719
6. Investments in associates	14.6	19	
7. Receivables and loans	14.7	1 062	1 057
8. Deferred tax assets	14.21	16 491	22 045
9. Accruals and prepayments	14.18	177	175
Current assets (short-term)		716 446	621 610
1. Inventory	14.8	424 437	322 756
2. Trade receivables	14.9	95 742	78 271
3. Receivables from income tax	14.9	542	
4. Other receivables	14.9	22 962	15 155
5. Loans	14.7	237	541
6. Other securities	14.7	16 430	
7. Other financial assets	14.7	53 064	
8. Accruals and prepayments	14.18	6 562	7 405
9. Cash & cash equivalents	14.10	96 470	197 482
TOTAL assets		**1 429 020**	**1 361 603**

LIABILITIES			
Equity capital		736 546	685 589
1. Share capital	14.12	3 501	3 501
2. Own shares		-48 754	-48 749
3. Share premium	14.12	108 123	108 123
4. Other capital	14.12	547 559	512 189
5. Foreign exchange differences on translation		-650	509
6. Retained earnings			
- profit (loss) from previous years		-12 316	5 382
- net profit (loss) for the current period		139 083	104 634
7. Minority interests			
Long-term liabilities		281 231	347 725
1. Bank loans and borrowings	14.7	156 096	227 270
2. Issue of debt securities	14.7	121 524	115 514
3. Other financial liabilities	14.17	88	215
4. Provisions for employee benefits	14.14	1 025	1 031
5. Deferred income tax provision	14.21	2 464	3 695
6. Other long-term liabilities		34	
Short-term liabilities		411 243	328 289
1. Trade payables and other liabilities	14.17	312 700	225 329
2. Income tax liabilities	14.17	771	14 314
3. Bank loans and borrowings	14.7	86 637	76 472
4. Issue of debt securities	14.7	3 906	5 465
5. Other financial liabilities	14.17	96	367
6. Provisions	14.14	3 122	2 863
7. Special funds		347	463
8. Accruals and prepayments	14.18	3 664	3 016
TOTAL liabilities		**1 429 020**	**1 361 603**

2. Consolidated comprehensive income statement including discontinued operations at LPP SA

Income statement	Notes	01/01/2010-31/12/2010	01/01/2009-31/12/2009
Continued operation			
Sales revenues	14.19	2 079 358	2 003 095
Cost of sales		946 144	945 223
Gross profit/loss on sales		*1 133 214*	*1 057 872*
Other operating revenues	14.19	22 646	28 184
Selling costs	14.20	835 587	772 647
General administrative expenses	14.20	91 114	89 896
Other operating expenses	14.20	28 472	42,235
Operating profit/loss		*200 687*	*181 278*
Financial revenue	14.19	10 690	2 976
Financial expenses	14.20	28 888	45 003
Gross profit/loss		*182 489*	*139,251*
Tax burden	14.21	43 406	34 530
Net profit/loss from continuing operations		***139 083***	***104 721***
Discontinued operations			
Net profit/loss from discontinued operations			-87
Net profit/loss		***139 083***	***104 634***
Other comprehensive income			
Foreign exchange differences on translation		-1 159	3 578
Total comprehensive income		***137 924***	***108 212***

3. Consolidated comprehensive income statement excluding discontinued operations at LPP SA

Income statement	Notes	01/01/2010-31/12/2010	01/01/2009-31/12/2009
Continued operation			
Sales revenues	14.19	1 997 159	1 945 367
Cost of sales		896 355	913 630
Gross profit/loss on sales		*1 100 804*	*1 031 737*
Other operating revenues	14.19	23 749	27 379
Selling costs	14.20	808 844	749 398
General administrative expenses	14.20	88 125	87 483
Other operating expenses	14.20	27 661	39 614
Operating profit/loss		*199 923*	*182 621*
Financial revenue	14.19	10 528	2 838
Financial expenses	14.20	28 731	44 883
Gross profit/loss		*181 720*	*140 576*
Tax burden	14.21	43 260	34 782
Net profit/loss from continuing operations		***138 460***	***105 794***
Discontinued operations			
Net profit/loss from discontinued operations	14.11	623	-1 160
Net profit/loss		***139 083***	***104 634***
Other comprehensive income			
Foreign exchange differences on translation		-1 159	3 578
Total comprehensive income		***137 924***	***108 212***

4. Statement of changes in equity

Statement of changes in equity	Core capital	Treasury shares	Share premium account	Other reserves	Foreign exchange differences on translation of foreign subsidiaries	Profit (loss) from previous years	Current period profit/loss	Minority interests	Total equity capital
As at 1 January 2009	3 492	-48 746	108 123	328 261	-3 069	176 860	0	314	565 235
- adjustments of errors from previous years						-529			0
As at 1 January 2009 after adjustments	3 492	-48 746	108 123	328 261	-3 069	176 331	0	314	564 706
Costs of buy-back of treasury shares		-3							-3
Share capital increase	9								9
Net profit distribution for the year 2008				170 949		-170 949			0
Payment of wages and salaries paid in shares				1 955					1 955
Transactions with minority				-1 266					-1 266
Determination of minority interest as at the balance sheet day								-314	-314
Capital component of convertible bonds				12 290					12 290
Transactions with owners	9	-3	0	183 928	0	-170 949	0	-314	12 671
Net profit for the year 2009							104 634		104 634
Calculation of foreign exchange differences on translation					3 578				3 578
As at 31 December 2009	3 501	-48 749	108 123	512 189	509	5 382	104 634	0	685 589

Statement of changes in equity	Core capital	Treasury shares	Share premium account	Other reserves	Foreign exchange differences on translation of foreign subsidiaries	Profit (loss) from previous years	Current period profit/loss	Minority interests	Total equity capital
As at 1 January 2010	3 501	-48 749	108 123	512 189	509	110 016	0	0	685 589
- adjustments of errors from previous years						-518			-518
As at 1 January 2010 after adjustments	3 501	-48 749	108 123	512 189	509	109 498	0	0	685 071
Cost of treasury shares purchase		-5							-5
Net profit distribution for the year 2009				35 370		-121 814			-86 444
Transactions with owners	0	-5	0	35 370	0	-121 814	0	0	-86 449
Net profit for the year 2010							139 083		139 083
Calculation of foreign exchange differences on translation					-1 159				-1 159
As at 31 December 2010	3 501	-48 754	108 123	547 559	-650	-12 316	139 083	0	736 546

5. Consolidated Cash Flow Statement

Cash Flow Statement	01/01/2010-31/12/2010	01/01/2009-31/12/2009
A. Cash flow from operating activities - indirect method		
I. Gross profit (loss)	182 489	139 164
II. Total adjustments	14 973	178 935
1. Amortisation and depreciation	94 424	96 131
2. (Profit) loss on foreign exchange differences	-760	-2,003
3. Interest and participation in profits (dividends)	24 272	23 959
4. Profit (loss) from investing activities	-8 589	1 939
5. Paid income taxes	-52 567	-65 153
6. Change in provisions	246	-2 754
7. Change in inventories	-102 995	127 163
8. Change in receivables	-27 951	18 069
9. Change in short-term liabilities, excluding loans and borrowings	88 361	-16 948
10. Change in accruals	2 249	-2 159
11. Other adjustments	-1 717	691
III. Net cash flows from operating activity	197 462	318 099
B. Cash flows from investing activities		
I. Revenues	61 817	25 200
1. Disposal of intangible and tangible fixed assets	34 269	23 585
2. From financial assets, including:	2 548	1 615
a) in related entities	1 113	1 074
- disposal of shares/liquidation of companies	564	
- dividends and profit sharing	549	1 074
b) in other entities	1 435	541
- sale of financial assets		
- interests	902	31
- repayment of short-term loans	533	510
- repayment of long-term loans granted		
- other receipts from financial assets		
3 . Other investment inflows	25 000	

II. Expenses	192 373	96 377
1. Acquisition of intangible and tangible fixed assets	100 665	94 797

2. For financial assets, including:	698	0
a) in affiliated entities	498	0
- acquisition of shares	498	
b) in other entities	200	0
- short-term loans granted	71	
- long-term loans granted	129	
3. Other capital expenses	91 010	1 580
III. Net cash flows from investments	-130 556	-71 177
C. Cash flows from financing activities		
I. Revenues	15 079	164 486
1. Proceeds from share issue		8
2. Loans and borrowings	15 079	36 675
3. Issue of debt securities		127 803
4. Other financial inflows		
II. Expenses	182 996	303 757
1. Treasury shares purchase	5	3
2. Dividends and other payments to holders	86 444	
3. Repayment of loans and borrowings	74 748	279 801
4. Payment of finance lease liabilities	329	502
5. Interest	21 470	23 451
6. Other financial expenses		
III. Net cash flows from financial activity	-167 917	-139 271
D. Total net cash flows	**-101 011**	**107 651**
E. Net change in cash, including:	**-101 011**	**107 651**
- change in cash – foreign exchange differences	528	-2 368
F. Opening cash balance	**197 482**	**89 831**
G. Cash and cash equivalents at the end of the period, including:	**96 471**	**197 482**
- restricted cash	495	495

NOTES TO THE CONSOLIDATED FINACIAL STATEMENT OF LPP S.A. CAPITAL GROUP FOR THE YEAR 2010

INTRODUCTION

1. General information

Name and seat of the parent company of LPP Capital Group:

LPP Spółka Akcyjna
with its seat in Gdańsk / Poland
ul. Łąkowa 39/44
Postcode: 80-769

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

District court of competent jurisdiction for the parent company
LPP SA is registered in the District Court of Gdańsk-Północ in Gdańsku, 7th Commercial Division of the National Court Register under KRS no. 0000000778.

Place of business
The Group runs its business in the following countries:
- Poland,
- Estonia,
- the Czech Republic,
- Lithuania,
- Latvia,
- Hungary,
- Russia,
- Ukraine
- Romania,
- Bulgaria,
- Slovakia

Sector as classified by the Warsaw Stock Exchange:

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

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

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

3. Description of LPP Capital Group

LPP Capital Group (CG, Group) is composed of:
- LPP S.A. – as the parent company,
- 6 Polish subsidiaries,
- - 13 foreign subsidiaries.

There is no parent company of LPP S.A.

The complete list of Capital Group companies is presented below.

No.	Company name	Seat	Takeover date
1.	G&M Sp. z o.o.	Gdańsk, Poland	26.09.2001
2.	TORA Sp. z o.o.	Gdańsk, Poland	26.09.2001
3.	DP&SL Sp. z o.o.	Gdańsk, Poland	26.09.2001
4.	IL&DL Sp. z o.o.	Gdańsk, Poland	26.09.2001
5.	AMA Sp. z o.o.	Gdańsk, Poland	28.05.2002
6.	AMUR Sp. z o.o.	Gdańsk, Poland	09.05.2003
7.	LPP Retail Estonia OU	Tallinn. Estonia	29.04.2002
8.	LPP Czech Republic s.r.o.	Prague, Czech Republic	16.09.2002
9.	LPP Hungary Kft	Budapest, Hungary	18.10.2002
10.	LPP Retail Latvia Ltd	Riga, Latvia	30.09.2002
11.	UAB LPP	Vilnius, Lithuania	27.01.2003
12.	LPP Ukraine	Peremyshliany, Ukraine	23.07.2003
13.	RE Trading Zamknięta Spółka Akcyjna (closed joint stock company)	Moscow, Russia	12.02.2004
14.	LPP Fashion Distribuitor SRL	Bucharest, Romania	12.08.2007
15.	ES Style	Moscow, Russia	10.03.2008
16.	Fashion Point	Moscow, Russia	01.04.2008
17.	LPP Retail Bulgaria Ltd.	Sofia, Bulgaria	14.08.2008
18.	Artman Slovakia s.r.o.	Banska Bystrica, Slovakia	30.10.2008
19.	Artman Mode s.r.o.	Ostrava, Czech Republic	30.10.2008

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

The consolidated financial statements of the Capital Group covering the period between 1 January and 31 September 2010 include individual results of LPP S.A. and results of foreign subsidiaries listed below:
- LPP Retail Estonia OU
- LPP Czech Republic s.r.o.
- LPP Hungary Kft

- LPP Retail Latvia Ltd
- UAB LPP
- LPP Ukraina AT
- ZAO Re Trading
- LPP Fashion Distribuitor srl.
- ES Style
- Fashion Point
- LPP Retail Bulgaria Ltd.
- Artman Slovakia srl
- Artman Mode s.r.o.

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 affiliate is not consolidated if the results disclosed in the financial statements of this entity are immaterial in relation to the data disclosed in the financial statements of the parent company. In particular, the balance sheet total, net revenues from sales of goods and services and financial transactions of the entity representing less than 10% of the balance sheet total and of the revenues of the parent company in the reporting period shall be considered immaterial. The total amount of balance sheet totals and revenues of non-consolidated entities must not exceed this level, but established in relation to relevant amounts of the consolidated financial statements, based on the assumption that the statements cover all subsidiaries and associates with no exceptions.
Participation in the consolidated amounts of all national subsidiaries not included in the consolidation is as follows:

- in the Capital Group's balance sheet total – 0.10 %
- in the Capital Group's revenues from sales and financial revenues - 0.49%.

The fact that financial statements of these companies are not consolidated has no negative impact on 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. Consolidated Capital Group companies are involved in the distribution of goods under the Reserved, Cropp, House and Mohito brands outside Poland. Clothing is basically the only product sold by the CG companies. The basic offer of CG companies is supplemented by footwear, bags and accessories.
Designs of clothing are prepared in the design office located at the registered office of LPP S.A. in Gdańsk and the design office in Krakow, and then circulated to the purchasing department, which contracts the production of individual products in co-operation with production plants in Poland and abroad. Production in China is managed by the Company's trading office in Shanghai.
The Capital Group also generates small revenues from sales of services (these include only the revenues generated by the parent company – mainly know-how services related to the management of brand stores by Polish contractors and the lease of transport vehicles).
6 Polish subsidiaries are involved in the lease of real property where Cropp Town and Reserved outlets are located.

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

Pursuant to the Accounting Act of 29 September 1994 (consolidated text of 2 September 2009, Journal of Laws No. 152, item 1223), on 1 January 2005 the LPP Capital Group presents its consolidated financial report on the basis of International Financial Reporting Standards (IFRS) and related interpretations, published as European Commission Regulations. In matters not covered by IFRS, provisions of the Accounting Act shall be

applied. Financial statements covering periods starting before 1 January 2005 were prepared based on the Accounting Act and its implementing provisions.
The Group has not exercised its right arising from a change in IAS 1, concerning the loans grated to subsidiaries, and does not classify those loans as subordinated loans.

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

These consolidated financial statements were drawn up in PLN '000.

5. Declaration of compliance with IFRS

The presented consolidated financial statements cover the period between 1 January 2010 and 31 December 2010. Comparable data is presented for the period between 1 January 2009 and 31 December 2009.
These financial statements have been drawn up in line with the International Financial Reporting Standards (IFRS) approved by the European Union, covering standards and interpretations approved by the International Accounting Standards Board and the International Financial Reporting Standards Interpretation Committee.

<u>Changes in accounting standards or interpretations valid and applied by the Company since 2010</u>

The following new and amended standards and interpretations, effective from 1 January 2010, have influenced the accounting principles adopted when drawing up these consolidated financial statements.

- IFRS 3 (amendment), "Business Combinations" and IAS 27 (amendment), "Consolidated and Separate Financial Statements "- a new approach to determining the value of the company was introduced,
- IAS 39 (amendment) "Financial Instruments: Recognition and Measurement" – amendments regard the clarifications as to what may be considered a hedging instrument and a hedged instrument and guidance as to the assessment of hedging effectiveness.
- IFRS 1 (amendment) "First-time Adoption of IFRS" – amendment to the organization of the standard content and introduction of additional exemptions regarding the valuation of assets arising from exploration and evaluation of mineral resources and assessment of the nature of lease agreements,
- IFRS 5 (amendment) arising from the draft of annual adjustments "Annual improvements Project 2008",
- Amendments arising from the draft of annual adjustments "Annual improvements Project 2009", IFRS 2, 5, 8, IAS 1, 7, 17, 18, 36, 38, 39, IFRIC 9, 16,
- IFRS 2 (amendment) "Share-based Payment" – amendments specify in more detail the manner of recognizing share-based payment schemes intended for many entities from a group of companies,
- IFRIC 12 "Service Concession Arrangements" - regulates the recognition of assets and liabilities arising from agreements on service licensed by the state,
- IFRIC 15 "Agreements for the Construction of Real Estate" - regards the recognition of revenue by entities engaged in real estate construction,
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" - regulated the accounting of hedges of a net investment in a foreign operation,
- IFRIC 17 "Distributions of Non-cash Assets to Owners" - according to the interpretation, a non-cash dividend should be measured in fair value of transferred assets, and the difference between the fair value and balance value should be included in the financial result.

- IFRIC 18 "Transfers of Assets from Customers" - applies to agreements under which the customer transfers an element of tangible assets used to supply electricity, gas or water

The list of legally binding standards and interpretations in a version published by IASB since 2010 but not approved by the European Union is presented below in the section relating to standards and interpretations which have not entered into force.

All the aforementioned new or amended standards and interpretations had no significant or no impact on the consolidated financial statements of the Company.

Application of a standard or interpretation before the effective date.

No early voluntary application of a standard or interpretation occurred in these financial statements.

Published standards and interpretations which have not entered into force as at 31 December 2010 and their impact on the Group's statements.

Until the date of these financial statements, new or amended standards and interpretations were published, which are applicable for annual periods following 2010:

- IAS 32 (amendment) “Financial Instruments: Presentation” - effective date: annual periods beginning on or after 1 February 2010. The standard introduces a change in the approach to the classification of instruments settled in own capital instruments denominated in a foreign currency. The change will not significantly influence the consolidated financial statements.
- IAS 24 (amendment) “Related Party Disclosures” - effective date: annual periods beginning on or after 1 January 2011. The changes in the standard comprise exemptions from disclosure of information relating to state-controlled entities and introduce a new definition of related parties. This amendment will not affect the consolidated financial statements.
- IFRS 9 “Financial Instruments: Classification and Measurement” - effective date: annual periods beginning on or after 1 January 2013, (this standard was not approved by the European Commission). The new standard is to replace the current IAS 39. The part of IFRS 9 published so far includes regulations on the classification and valuation of financial assets, the classification and valuation of financial liabilities and the derecognition of financial assets and liabilities. The entity is in the process of assessing the impact of the change on the consolidated financial statements.
- IFRS 1 (amendment) “First-time Adoption of IFRS”- effective date: annual periods beginning on or after 1 July 2010. The amendment introduces additional exemptions for entities drawing up statements pursuant to IFRS for the first time within the scope of disclosures regarding financial instruments for comparative periods. This amendment will not affect the consolidated financial statements.
- Amendments arising from the draft of annual adjustments "Annual improvements Project 2010”: IFRS 1, 3, 7 IAS 1, 21, 28, 31, 34 IFRIC 13 - effective date: annual periods beginning on or after 1 January 2011 (IFRS 3, IAS 21,28, 31 - 1 July 2010). These amendments will not have a material impact on the consolidated financial statements.
- IFRS 7 (amendment) “Financial Instruments: Disclosures” - effective date: annual periods beginning on or after 1 July 2011 (this amendment has not been approved by the European Commission). The amendment introduces additional disclosures regarding the transfer of financial assets, both those which result in the derecognition and those which give rise to a corresponding obligation. The amendment will not have a material impact on the consolidated financial statements.

- IFRS 1 (amendment) “First-time Adoption of IFRS” - effective date: annual periods beginning on or after 1 July 2011 (this amendment has not been approved by the European Commission). So far, IFRS conditioned the possibility of benefiting from certain exemptions and exclusions on the fact whether the transaction occurred before or after 1 January 2004. The amendment to IFRS 1 regards the replacement of that date with the date of the transition to IFRS. Moreover, it introduces changes to the principles of conduct in case when an entity operates in the period of high hyperinflation, when price indices were not achieved and there was no stable foreign currency. These changes will not affect the consolidated financial statements.
- IAS 12 (amendment) “Income Taxes” - effective date: annual periods beginning on or after 1 January 2012 (this amendment has not been approved by the European Commission). The amended standard regulates how to calculate deferred tax in cases when the tax law treats differently the recovery of the investment property value through its use and disposal, and the entity is not planning to dispose of it. The amendment to IAS results in the withdrawal of the SCI 12 interpretation as its regulations have been included in the standard. The amendment will not have a material impact on the consolidated financial statements.
- IFRIC 14 (amendment) “IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" - effective date: annual periods beginning on or after 1 January 2011. The change in the interpretation introduces a modification of principles within the scope of recognizing premiums paid before the deadline. The amendment will not have a material impact on the consolidated financial statements.
- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” - effective date: annual periods beginning on or after 1 July 2010. The interpretation regulates the procedures in cases, when a liability is settled not by payment but by issuance of own equity instruments of the entity. According to a preliminary analysis, the application of the interpretation will not have a material impact on the consolidated financial statements.

The entity intends to implement these regulations within the time frames provided for by standards or interpretations.

6. Ongoing concern

The consolidated financial statements for the year 2010, financial statements of the Parent Company and statements of subsidiaries which are the basis for the consolidated financial statements were drawn up based on the assumption the group remaining a going concern in the foreseeable future and that their respective businesses are not restricted to a considerable extent.
Based on the information available as at the date of the preparation of the financial statements, the going concern assumption adopted in this financial statements is fully justified.

7. Date of approval for publication

These financial statements were approved for publication by the Management Board of the Parent Company of the Capital Group LPP on 12 April 2011.

8. Post-balance sheet events

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

9. Principles of assets and liabilities valuation and measurement of financial result adopted when drawing up the financial statement

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

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

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

- the asset is entered 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 written-off on a one-off basis and allocated to costs of consumption of materials recorded in the month of the purchase.

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

- if many fixed assets are purchased at the same time and their unit price is not in excess of the threshold amount, but their total value is material,
- if these assets are a part of a larger set of uniform and/or interconnected units, and their purchase is related to an extensive investment programme to be implemented at

least over the period of normative depreciation specified for this particular group of fixed assets in tax regulations,

- if these fixed assets are high quality and high availability (HA) assets.

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

Intangible assets
Intangible assets include trademarks, patents and licenses, computer software, costs of development works and other intangible assets that meet the criteria of recognition as specified in IAS 38.

Intangible assets as at the balance sheet day are disclosed by the purchase price or the formation cost, less depreciation and impairment write-downs. Intangible assets with determined useful life are depreciated on a straight line basis for the period of their useful lives by applying the rates of 1.7 - 50%. Useful lives of individual intangible assets are subject to annual verification.
Intangible assets with indefinite useful lives are not subject to depreciation but they are tested for impairment annually. Intangible assets with indefinite useful lives owned by the Capital Group include the trademark of House. After analysis, it has been found that there is no time limit in which it can be expected that the asset will not generate income.

Costs related to the maintenance of the software, incurred in subsequent periods, are recognized as the cost of the period when incurred.

Borrowing costs
Under IAS 23 Borrowing costs, all costs that may be attributed to the qualifying assets are capitalised.
Qualifying assets are those which require a substantial period of time to get ready for their intended use. The Capital Group assumed that a substantial period of time is a period of 1 year. Thus, all the borrowing costs are capitalised on the condition that they were not qualified for a period lasting for 1 year or longer. All other insubstantial costs related to assets are recognised directly in the financial result.
Borrowing costs may include mostly the following:

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

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

Leased assets
Finance lease agreements under which generally the entire risk and benefits resulting from the possession of the leased item are transferred to the Group are recognized in assets and liabilities as at the lease commencement date. The value of assets and liabilities is determined as at the lease commencement date at the lower of the following values: the fair value of an asset which is the subject of the lease or the present value of the minimal lease fees.
The minimal lease fees are divided between the financial expenses and reduction of the outstanding balance of lease liabilities so as to allow gaining a fixed interest rate on outstanding liabilities. Contingent lease payments are recognised in costs of the period in which they were incurred.
Fixed assets used under financial lease contracts are amortised in line with the same principles as applied to the own assets of the Capital Group. If however, there is no

reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the two periods: the lease term or its useful life.
In case of qualifying a lease agreement as a finance lease in terms of accounting under the regulations of IAS 17, and in terms of taxing under the regulations of the income tax act as an operating lease agreement, then in order to determine a proper value of tax deductible expenses the following rules shall apply. Depreciation write-offs made by the user are not tax deductible expenses for tax purposes. Tax deductible expenses are solely the lease payments specified in the agreement, recognised as cost for the period they refer to.

Lease contracts under which the lessor retains basically all the risks and benefits resulting from holding the leased asset are recognised as operating lease contracts.
Lease payments under operational lease are recognised on straight-line basis over the lease term unless another systematic basis is more representative of the time pattern in which use benefit is derived by the Capital Group.

Goodwill
The goodwill is initially recognized pursuant to IFRS 3.

This value is calculated as the difference between two values:
- the value of the remuneration for the control, minority shares and fair value of blocks of shares held in the acquired entity prior to the acquisition date and
- the fair value of identifiable acquired net assets of the entity.

The excess of the amount calculated in the manner indicated above over the fair value of identifiable acquired net assets of the entity is recognized in the assets of the unconsolidated balance sheet as goodwill. Goodwill represents the payment made by the acquiring company in anticipation for future economic benefits from the assets which cannot be individually identified or separately recognized.

As at the reporting date, goodwill is measured at the cost of purchase less accumulated impairment losses made so far and deductions for the disposal of a part of shares to which it was previously assigned. Impairment losses up to a value assigned to a cash-generating unit (unit group) are not subject to reversal.

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

Until 1 January 2010, the Capital Group applied purchase accounting for settling mergers, as described in the previous version of IFRS 3.

Shares in subsidiaries
The Group solely owns shares in Polish subsidiaries.
Shares in subsidiaries are measured at acquisition prices less impairment losses.
Acquisition price includes the amount due to the selling party less deductible VAT, as well as costs directly related to the purchase and necessary to bring the asset to working condition for its intended use or marketing.
In case of goodwill loss revaluation write-offs are assigned to finance operating costs. If the reason for the revaluation write-offs ceases to exist, the initial value of the investment is reinstated by including the reversed amount in operating revenues. Goodwill reinstatement may be entire or partial.

Investments in associates

Associates include entities not controlled but influenced by the Capital Group in terms of financial and operating policy.
Investments in associates are recognized initially in the acquisition price and subsequently measured using the equity method.

Financial instruments
Each contract establishing an element of assets for one party and a financial liability or capital instrument for the other party is classified by as a financial instrument.

A financial asset or liability is recognised in the balance sheet if the Company becomes a party to that instrument. Standardised transactions of purchase and sale of financial assets and liabilities are recognised as at the date of the transaction conclusion.

The Capital Group values financial assets and liabilities at fair value as at the purchase date, i.e. mostly at fair value of the payment made (in the case of an element of assets) or payment received (element of liabilities).

As at the balance sheet date, financial assets and liabilities are valued in line with the principles specified below.

Financial assets
For the purposes of valuation following an initial recognition, financial assets other than hedging derivatives are classified by the Capital Group divided into:

- loans and receivables,
- financial assets measured at fair value through profit and loss account,
- investments held to maturity,
- financial assets available for sale.

These categories define the principles for valuation as at the balance sheet date and the recognition of profits and losses from the measurement in profit and loss account or in other total income. Profits and losses recognised in the profit and loss account are presented as financial revenues or costs except for revaluation write-downs of trade receivables which are disclosed as other operating expenses.

All financial assets, except for those measured at fair value in the profit and loss account are assessed as at each balance sheet date due to indications suggesting the impairment of value. Indications suggesting the impairment of value are analysed for each category of financial assets separately, as presented below.

Loans and receivables are non-derivative financial assets with fixed or fixable payments which are not quoted on the active market. Loans and receivables are measures at depreciated cost based on the effective interest rate: The measurement of short term receivables is based on the amount due as a result of immaterial discount effects.
Financial assets classified as loans and receivables are presented in the balance sheet as:

- long-term assets under "Receivables and loans" and
- short-term assets under "Loans", "Trade receivables", "Other receivables" and "Cash and cash equivalents".

Write-offs on receivables are made based on the type of receivables:

- claimed receivables (amounts claimed in court and amounts due from debtors in the process of liquidation or filing for bankruptcy) – write-offs in the total amount receivable,
- other receivables – write-downs are made based on a case-by-case analysis and assessment of the situation and risk of potential loss.

Financial assets measured at fair value in the profit and loss account cover assets classified as held for trading or selected at initial recognition for valuation at fair value in the profit and loss account as meeting the criteria set out in IAS 39.
This category includes all derivatives presented in the balance of a separate item and units in an investment fund. As at the balance sheet date, the Capital Group does not hold derivatives.
Investment funds units are recognized in the item "Other financial assets".
Instruments in this category are measured at fair value and the results of the measurement are presented in the profit and loss account.

Investments held to maturity cover non-derivative financial assets with fixed or fixable payments and fixed maturity date which the Group intends and is able to hold to maturity, with the exception of assets classified as loans and receivables.
In this category the Capital Group recognises bonds and other debt securities held to maturity, carried at the balance sheet under "Other securities".
Investments held to maturity are measured at amortised cost based on the effective interest rate method. If there is any evidence indicating a possible impairment of investments held to maturity, assets are measured at present value of estimated future cash flows. Changes in carrying value, including impairment write-downs, are recognised in the profit and loss account.

Assets available for sale are non-derivative financial assets selected as available for sale or not classified as any of the above categories of financial assets.
In this category the Capital Group includes listed bonds not held to maturity and shares of companies other than subsidiaries or associates.
These assets are recognized in the balance sheet under "Other securities".
All other financial assets available for sale are measured at fair value.
Profits and losses on valuation are recognised as other comprehensive income and accumulated in revaluation capital from financial assets available for sale, except for impairment write-downs which are recognised in the profit and loss account. The profit and loss account includes also interest which would be recognised at the valuation of these financial assets at amortised cost based on the effective interest rate method.

Financial liabilities
Financial liabilities other than hedging derivatives are recognised under the following items of the balance sheet:

- bank loans and borrowings
- other financial liabilities,
- trade payables and other payables and
- issue of debt securities

After initial recognition, financial liabilities are valued at amortised cost based on the effective interest rate, except for financial liabilities held for trading or indicated as measured at fair value by the profit and loss account (derivatives other than hedging instruments). The measurement of short term trade payables is based on the amount due as a result of immaterial discount effects.
Debt securities are understood as convertible bonds issued by the Company.
Convertible bonds are initially recognised at their issue as recognition of a liability component as well as a capital component less cost. The first is a liability whereas the second is recorded as a component of the remaining capitals.
Convertible bonds are measured as at the balance sheet day and their initial value is adjusted by the calculated interest. Interest is measured as at the balance sheet day based on the effective interest rate method.

Accruals and prepayments

Under the heading "Accruals and prepayments" in the assets column of the balance sheet, the Capital Group presents prepaid expenses relating to future reporting periods, including primarily rents.
Under "Accruals and prepayments" in the liabilities column of the balance sheet, income of future periods is presented.

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

Trading commodities in local warehouses are recorded by quantity and value and measured as follows:
- for 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,
- for goods purchased in Poland – at cost; purchase-related costs are charged directly into costs of ordinary operations when they are incurred, as they represent an immaterial amount.

Trading commodities issued from Reserved, Cropp, Esotiq and Henderson collections are measured at weighed average prices, and commencing from 1 July 2009 the same method is applied to House and Mohito commodities.
For trading commodities from other collections the FIFO method is employed.

Trading commodities in bonded warehouses are measured at cost, including their purchase price and costs off transport abroad and cost of transport in Poland up to the first unloading point in Poland.
The value of goods issued from bonded warehouses (moved to local warehouses or sold directly abroad) is measured based on detailed identification of goods against separate lots accepted at bonded warehouses.

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

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

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

Equity capital
Basic capital is presented at nominal value of issued shares, in accordance with the Articles of Association of the Parent Company and entry in the National Court Register.

Shares of the Parent Company acquired and retained by the Parent Company are deducted from equity. Treasury shares are valued at cost.

Share premium account is formed from the surplus of share issue price over the share nominal value, less issue costs.

Other capital includes:

- spare capital,
- capital from the settlement of merger transactions and
- capital component of convertible bonds.

The amount of spare capital includes:

- 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.

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

The retained earning present results from previous years and the financial result of the current year.

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

- provision for holiday leaves not taken,
- provision for future retirement benefits,
- provision for unpaid remuneration.

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

Revenues
Sales revenues are recognized at fair value of payments received or receivable and represent receivables for products, goods and services provided in the normal course of business, net of discounts and VAT. Revenues are recognised in such amount as it is likely that the Capital Group will gain economic benefits related to the transaction and if the revenues amount may be reliably measured.
Revenues from sales of goods are recognised if significant risk and benefits arising from the ownership title to these goods have been transferred to the buyer.
Given the complaints and returns from customers, revenues from sales of goods are adjusted based on adjustment of the estimated cost of these returns. Based on historical data, the ratio of product return against sales volume is estimated. When making these calculations it was assumed that returns of products purchased in one quarter occur in the following quarter. The value of this ratio (against the entity’s prime costs and revenues) is defined every quarter.

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

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

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

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

Income tax

The mandatory reductions of the financial result comprise the current and deferred income tax which was not recognized in other comprehensive revenues or directly in equity.
Current tax is calculated on the basis of the taxable result of the fiscal year. The taxable profit/loss differs from the gross accounting profit/loss due to the temporary shift of taxable revenues and tax deductible costs to other periods and the exclusion of costs and revenues which will never be taxed. Charges

tax charges are calculated based on the tax rates applicable in the specific fiscal year.

Deferred tax is calculated using the balance sheet method as a payable or refundable tax due to differences between carrying value of assets and liabilities and the corresponding tax values used to calculate the tax base.
Provision for the deferred tax is set aside for all positive taxable temporary differences and the asset under the deferred tax is recognised up to the extent that the recognised negative temporary differences may be deducted from future tax profits.

Transactions in foreign currencies

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

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

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

The following items expressed in foreign currencies are measured as at the balance sheet date:

- monetary items:

  - elements of assets – at the Company's bank's buy rate adopted as at this date (USD – 2.8765, EUR – 3.8424),
  - elements of liabilities – at the Company's bank's sell rate adopted as at this date (USD – 3.0535, EUR – 4.0788).
- non-monetary items – at the historical exchange rate as at the transaction date.

Earnings per share

Earnings per share for each period is calculated by dividing net profit for the period by weighted average number of shares of LPP SA in this period. As at the balance sheet date, the Capital Group shall examine whether in the given period factors causing dilution of the earning/loss per share occurred. Information on earnings per share and diluted earnings per share are presented in note 14.22.

Share-based remuneration payment

Pursuant to a resolution of the General Meeting of Shareholders of 25 June 2010, the Company introduces a motivation scheme enabling the employees and collaborators to take up shares,

which may be issued as part of the conditional increase in the share capital. The scheme may be implemented in the years 2010-2013 and may cover at most 15,000 of LPP S.A. shares.

Annually, the Supervisory Board established the level of net profit which conditions the acquisition of right to subscribe for shares and the number of shares to be used under the scheme.

In 2010, the financial objectives specified by the Supervisory Board of LPP S.A. were not met and their achievement conditioned the possibility of starting an incentive scheme for this year. Therefore, no instruments related to the incentive scheme were granted.

Hyperinflation

Under provisions of IAS 29 Financial Reporting in Hyperinflationary Economies, entities running their business in a hyperinflationary economy should restate individual items of their share capital by applying a general price index. Results of this restatement should be disclosed as negative amounts under "retained earnings" in the balance sheet. This restatement is made to reflect the impact of hyperinflation on the entity's financial result in the respective reporting period. In Poland, the period 1989 – 1996 is considered a period of hyperinflationary economy. However, the Management Board is in doubt whether disclosure if this hyperinflationary restatement in the balance sheet as an accumulated loss brought forward from previous is justified, taking into account that it refers to events which occurred before 1996, and the corresponding earnings had been distributed before this financial statement was drawn up. Additionally, it is not clear whether such disclosure of the hyperinflationary restatement has any effects under provisions of the Code of Commercial Companies, as regards e.g. the amount of dividend to be paid out, amount of payments on account of dividends, or conditions which require adoption of a resolution on the entity's remaining a going concern. Therefore, the Management Board is of the opinion that direct disclosure of this restatement in the balance sheet drawn up as at 31 December 2010 could be misleading for users of these financial statements, and decided to present relevant amounts, ratios, and conversion methods related to the hyperinflationary restatement in Note 14.12 to the financial statements.

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

Cash flow statement

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

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

Segments of operation

The scope of financial information in segment activity reporting within the Group is determined based on the requirements of IFRS 8.

A division into geographical segments has been adopted by the Group as the main reporting arrangement, which is due to its business activity in different geographical areas.

Two segments were specified:

- business within the European Union
- business in other countries

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

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

The result of a segment is determined at the level of the operating profit.

Revenues, results, assets and liabilities of segments are determined before transactions between segments are exempted, after elimination within a segment.

10. Financial risk management

The Group is exposed to many risks associated with financial instruments. The Company's assets and liabilities as per categories are presented in note 13.7. The risks affecting the Company include:

- credit risk
- liquidity risk and
- market risk including currency risk and interest rate risk.

The main financial instruments of the LPP Capital Group are bank credits and convertible shares issued in the previous year (Note 13.7). Their main objective is acquisition of business funding for the Capital Group. The Group has at its disposal other financial instruments which arise in the process of its activities. Those mainly include cash and deposits (Note 13.10), receivables, other financial assets and trade and services liabilities (Note 13.9, 13.7 and 13.17).

Pursuant to IFRS 7 a risk analysis was conducted in the scope of risks related to financial instruments, which the Capital Group is exposed to.

a) credit risk

The maximum credit risk reflects the carrying value of purchased bonds and fund units, trade receivables as well as guarantees and sureties granted.

The carrying amounts of the aforementioned financial assets are presented in the table below:

in PLN '000

Items	2010	2009
Loans 341 644		

Trade receivables 95 742 78 271	
Bonds acquired 16 430	
Investment fund shares 53 064	
Cash & cash equivalents 96 470 197 482	
Contingent liabilities under guarantees and sureties granted 110 725 115 084	
Total	**372 772 391 481**

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

Customer	share of receivables (%) in total amount of receivables
Customer 1	26.40%
Other with debts representing less than 5% in the total amount of receivables	73.60%
Total net trade receivables	100.0%

Classification of gross trade receivables according to the length of the overdue period as at 31.12.2010 and 31.12.2009 is presented in the table below:

in PLN '000	2010	2009
Not overdue 59 982 41 244		
Overdue up to one year	38 406 44 244	
Overdue for over one year	3 911 5 262	
Total	**102 299 90 750**	

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

b) liquidity risk
The objective of the Group is to maintain a balance between continuity and flexibility of funding through the use of such funding sources as overdrafts or investment bank credits. A new method of the Group's funding was the last- year issue of convertible bonds. Owing to this instrument, short-term funding with bank credits was replaced by medium-term funding that significantly reduces potential difficulties arising from tightening bank requirements.
Compared to the previous year credit commitments of the Capital Group were significantly reduced. A detailed description of the Company's financial standing in terms of credits taken is presented in the note 14.7. The decrease of the credit debt was due to, inter alia, the possibility of increasing the funding by suppliers by obtaining more favourable, longer payment terms.

As at the balance sheet date, the Group's financial liabilities were in the following maturity ranges.

	short-term	long term

As at 31 December 2010		
Credits in a credit account		156 096
Overdrafts	86 637	
Debt securities	3 906	121 524
Total	90 543	277 620

Balance as at 31.12.2009	short-term	long term
Credits in a credit account		227 270
Overdrafts	76 472	
Debt securities	5 465	115 514
Total	81 937	342 784

As part of liquidity risk, goods and services liabilities must also be indicated.

Classification of gross trade liabilities by overdue period as at 31.12.2010 and 31.12.2009 is presented in the table below:

in PLN '000	2010	2009
Not overdue 239 242 160 311		
Overdue up to one year	15 757	22 334
Overdue for over one year	636 1 125	
Total	**255 635 183 770**	

The Group continues its previous assumptions concerning the growth in the business scale and an increase of its significance for suppliers.

a) currency risks

The main accounting currency for the majority of goods purchase transactions is USD. A small proportion of the settlements is conducted in EUR.

The majority of receipts from sales is obtained in PLN. As the interrelations of the PLN exchange rate to USD were not subject to large fluctuations during the year (significantly less than in 2009), a slightly higher gross margin on sales was achieved in comparison to the previous year. Given the specific type of the Company's business, it is possible to partially transfer the risk of increase in USD exchange rate to end customers, as the product selling price is calculated just before the product is introduced to the market.

In addition to foreign exchange risk concerning the accounting currency used for the purchase of commercial goods, there is also the risk associated with the fact that the commercial space rents are settled in EUR.

The Company's assets and liabilities in two major foreign currencies converted into PLN at the closing exchange rate as at the balance sheet date are as follows:

in PLN '000

As at 31 December 2010	Values	in the currency	Converted value
	USD	EUR	
Cash	22 832	7 260	51 276
Trade receivables	5 427	12 525	52 245
Trade payables	40 196	293	255 635

Exchange rate risk *in PLN '000*

+/- 5%			
Balance sheet items	***Value***	***Effect on profit/loss***	***Effect on profit/loss***
<u>Financial assets</u>			
Cash	51 276	-2 564	2 564
Trade receivables	52 245	-2 612	2 612
Effect on financial assets before tax		*-5 176*	5 176
Income tax (19%)		983	-983
Effect on financial assets after tax		*-4 193*	*4 193*
<u>Financial liabilities</u>			
Short-term payables	255 635	12 782	-12 782
Bank credits	385	19	-19
Effect on financial liabilities before tax		*12 801*	*-12 801*
Income tax (19%)		2 432	-2 432
Effect on financial liabilities after tax		*10 369*	*-10 369*
Total		***6 176***	***-6 176***

As at 31 December 2010, net profit of the LPP Capital Group would have been higher by PLN 6,176 thousand if the Polish zloty had strengthened by 5% against foreign currencies (mainly USD), and the remaining factors did not change. It is due to a greater effect of the liabilities measurement, expressed in foreign currency over foreign receivables. Weakening of the Polish zloty by 5% against foreign currencies as at 31 December 2010 would have the same effect in terms of quantity but the opposite effect in terms of the sign on the currencies used in the Company.

<u>d) interest rate risk</u>

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

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

Interest rate risk *in PLN '000*

+/- 75 pb SP			
Balance sheet items	***Value***	***Effect on profit/loss***	***Effect on profit/loss***
Financial assets			
Cash	96 470	724	-724
Debt securities	69 494	521	-521
Effect on financial assets before tax		*1 245*	-1 245
Income tax (19%)		-237	237
Effect on financial assets after tax		*1 008*	*-1 008*
Financial liabilities			
Bank credits	242 733	-1 821	1 821
Convertible bonds	125 430	-941	941
Effect on financial liabilities before tax		*-2 762*	*2 762*
Income tax (19%)		525	-525
Effect on financial liabilities after tax		-2 237	*2 237*
Total		***-1 229***	***1 229***

As at 31 December 2010 the net profit of the Group would by lower by PLN 1,229 thousand if the interest rates in PLN, EUR and USD had been higher by 75 basis points, assuming that the remaining parameters remain unchanged. Such result is due to a higher balance of credits compared with cash and granted loans.

11. Capital management

The Group manages its capital in order to ensure the ability to continue operations by the Capital Group and to ensure the expected rate of return for shareholders and other parties holding stake in the financial condition of the Capital Group.

The Group examines the indicators assessing the condition of the Capital Group which are presented and described in detail in the Management Board's Report on the Capital Group Operations.

12. Critical accounting estimates and judgements

Estimates determining amounts disclosed in the financial statements refer to:

- estimated economic useful life of property, plant and equipment,
- residual value of property, plant and equipment as well as intangible assets.
- percentage of returns of commodities sold in the reporting period made in the next reporting period
- assets revaluation write-downs,

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

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

The following estimated amounts remained the same as in the previous period:
- discount rate for the estimated increase in salaries and actuarial assumptions used to calculate the amount of provisions for retirement benefits,
- future tax results taken into account when calculating deferred income tax assets.

The following estimated amounts were changed in line with the adopted methodology:
- estimated economic useful life of property, plant and equipment – applicable to third-parties' facilities and the building at Łąkowa Street in Gdańsk (determination of a new depreciation period after medernisation),
- 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.

13. Principles of consolidation

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

Equity includes the following separate items:
- core capital,
- other equity,
- profit (loss) from previous years,
- net financial result,

- foreign exchange differences, including in particular foreign exchange differences resulting from different methods of conversion of the net financial result and the balance sheet into PLN.

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

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

Marek Piechocki

President of the Management Board

Dariusz Pachla Hubert Komorowski Piotr Dyka Jacek Kujawa

Vice-President of the Management Board Vice-President of the Management Board Vice-President of the Management Board Vice-President of the Management Board

Gdańsk, 12 April 2011

NOTES TO THE FINANCIAL STATEMENT

14. NOTES TO THE FINANCIAL STATEMENT

14.1 Tangible fixed assets (PP&E)

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

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

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

In the reporting period the Capital Group made impairment write-downs of fixed assets in the amount of PLN 786 thousand.

Compensations related to tangible fixed assets, received by the Group in 2010, amounted to PLN 929 thousand (2009: PLN 315 thousand) and resulted mainly from vehicle-related damage.

As at the balance sheet date, there was the limited right to use the property in Pruszcz Gdański in relation to an investment credit. A detailed description is presented in the note 13.7.

As at 31 December 2010, the value of contractual liability for the purchase of tangible fixed assets was PLN 252 thousand (2009: PLN 2,400 thousand).
As of the balance sheet date, there were no fixed assets designed for sale and no operation was discontinued in the Group.
Detailed information on discontinued operations and their impact on the outcome of the Capital Group is presented in the note 14.11.

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

CHANGES OF FIXED ASSETS (by generic groups) in the period from 01.01.2010 to 30.12.2010 in PLN thousand

	land	buildings, facilities, civil- and hydro-engineering structures	technical equipment and machinery	means of transport	other fixed assets	fixed assets under construction	Fixed assets, total
1) gross value of fixed assets at the beginning of the performance period	19 174	480 909	118 543	11 987	90 912	23 901	745 426
- foreign exchange differences		-770	-305		357	135	-583
- increase		61 796	12 599	1 445	24 164	85 744	185 748
- decrease		15 952	10 228	2 245	6 279	105 219	139 923
2) gross value of fixed assets at the end of the performance period	19 174	525 983	120 609	11 187	109 154	4 561	790 668
3) accumulated depreciation (amortization) at the beginning of the performance period	0	169 449	69 416	5 173	49 095	0	293 133
- depreciation	0	53 016	17 006	1 667	17 725	0	89 414
- foreign exchange differences		- 579	- 346	-2	-336		-1 263
- decrease	0	7 260	7 951	1 377	2 147	0	18 735
4) accumulated depreciation (amortisation) at the end of the performance period	0	214 626	78 125	5 461	64 337	0	362 549
5) impairment write-offs at the beginning of the performance period	0	9 063	955	0	158	0	10 176
- increase	0	786		0		0	786
- decrease	0	4 873	268	0	158	0	5 299
6) impairment write-offs at the end of the performance period	0	4 976	687	0	0	0	5 663
Total net value of fixed assets at the end of the performance period	19 174	306 381	41 797	5 726	44 817	4 561	422 456

CHANGES OF FIXED ASSETS (by generic groups) in the period from 01.01.2009 to 31.12.2009 in PLN thousand

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

6) impairment write-offs at the end of the performance period	0	9 063	955	0	158	0	10 176
Total net value of fixed assets at the end of the performance period	19 174	302 397	48 172	6 814	41 659	23 901	442 117

Impairment write-offs - items in the Income Statement - 2010.	amount
- increase – "Revaluation of non-financial assets"	825
- reversal – "Other operating revenues"	1 295

Impairment write-offs - items in the Income Statement - 2009	amount
- increase – "Revaluation of non-financial assets"	6 470
- reversal – "Other operating revenues"	2 292

14.2 Leased assets

As a lessee, the Capital Group uses tangible fixed assets under finance lease contracts. As at 31 December 2010, the net carrying amount of assets subject to finance lease contracts amounted to PLN 482 thousand (2009: PLN 508 thousand).

Outstanding future minimum lease payments as at the balance sheet date are as follows:

Item	As at 31.12.2010	
	Minimum payments	Current value of payments
Within a period of 1 year	97	96
Within a period from 1 to 5 years	88	88
Over 5 years	0	0
Total minimum lease payments	185	0
Future financial benefits	-1	0
Current value of minimum lease payments	184	184

Contingent lease payments as an expense during the financial period amounted to PLN 11 000.
In the company, there were no irreversible sub-leasing contracts as of 31 December 2010.
The basis for calculation of lease payments is the interest rate, which corresponds to one-month's WIBOR index, valid on the first day of each new interest period with a fixed rate and is subject to change.
Lease contracts do not include any additional restrictions.

14.3 Intangible assets

Intangible assets used by the Capital Group include trademarks, patents and licenses, computer software, development works generated internally and other intangible assets.
The most important intangible asset is the House trademark which was presented in the balance sheet under a separate item of fixed assets as a "Trademark". Its carrying value as at 31.12.2010 amounted to PLN 77 508 thousand (2009: PLN 77 508 thousand). The useful life of this intangible asset component is indefinite.
In the current reporting period, the Group performed an annual impairment test of this component and it was demonstrated that it does not require to be included in the write-down.

The detailed analysis is as follows:

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

Detailed estimates' assumptions are as follows:

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

- the estimate is based on sales generated by the House trademark's clothes - it was PLN 311,2 million in 2010 and was higher by 5.5% than the turnover for 12 months (November 2007-October 2008) adopted for the initial balance sheet valuation.
- The license fee at the rate of 3% of turnover was adopted.
- The capitalization rate adopted for the valuation with the CAPM method (the forecast period is not defined here because it uses the model of a lifetime pension) amounted to 8.35% and consisted of several elements:

- risk-free rate - 4.291% equal to the profitability of 52-week treasury bills
- annual inflation rate - 2.60%
- risk premium - 7.5%

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

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

An important item among other intangible assets is the computer software Retek, used as a sales management support tool and goods management tool, compatible with the FK software. As at 31.12.2010, the carrying value of this software amounts to PLN 1 043 thousand (2009: 3 410 thousand). Its useful life is estimated at 5 months counted from the balance sheet date.

The Group draws up its income statement in the spreadsheet format. As a result, amortisation of intangible assets is recognised under the following items:

- costs of sales in the amount of PLN 411 thousand (2009: PLN 409 thousand)
- general administrative expenses in the amount of PLN 4 599 thousand (2009: PLN 4,568 thousand).

As at 31 December 2010, the Group was under no contractual obligation to acquire any intangible assets. There were also no outlays on R&D works.

Changes in intangible assets in the period from 01-01-2010 to 30-12-2010 in PLN thousand

	costs of completed development works	acquired concessions, patents, licenses and similar rights, including: total	computer software	intangible assets in progress	total
a) gross value of intangible assets at the beginning of the performance period	443	34 150	30 958	586	35 179
- foreign exchange differences		-3	-3	0	-3
- increase	-	3 425	3 425	2 972	6 397
- decrease		478	478	2949	3 427
b) gross value of intangible assets at the end of the performance period	443	37 094	33 902	609	38 146
c) accumulated depreciation (amortization) at the beginning of the performance period	443	21 973	19 833	-	22 416
- foreign exchange differences	0	22	22		22
- planned amortisation write-offs	0	5 010	4 909	-	5 010
- decrease	0	342	245		342
d) accumulated depreciation (amortisation) at the end of the performance period	443	26 663	24 519	-	27 106
Total net value of intangible assets at the end of the performance period	0	10 431	9 383	609	11 040

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

	costs of completed development works	acquired concessions, patents, licenses and similar rights, including: total	computer software	intangible assets in progress	total
a) gross value of intangible assets at the beginning of the performance period	443	30 861	29 779	385	31 689
- foreign exchange differences		-14	-14	0	-14
- increase	-	3 515	1 193	909	4 424
- decrease		212		708	920

b) gross value of intangible assets at the end of the performance period	443	34 150	30 958	586	35 179
c) accumulated depreciation (amortization) at the beginning of the performance period	443	17 282	16 691	-	17 725
- foreign exchange differences	0	-198	-198		-198
- planned amortisation write-offs	0	4 977	3 340	-	4 977
- decrease	0	88	0		88
d) accumulated depreciation (amortisation) at the end of the performance period	443	21 973	19 833	-	22 416
Total net value of intangible assets at the end of the performance period	0	12 177	11 125	586	12 763

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

14.4. Goodwill

In 2010, the goodwill presented in the balance sheet did not change in comparison to the previous year. It was formed by merging the LPP S.A. with Artman company in July 2009.
This merger was performed by the transfer of all assets of the acquired company, i.e. Artman S.A. to the acquiring company, i.e. LPP S.A.
On the day of this merger, LPP S.A. possessed 100% shares of Artman S.A.
The merger was performed under common supervision.

The provisions of the amended IFRS 3 were not applied to the completed merger transaction.

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

The goodwill determined as at the balance sheet date, resulting from the acquisition of Artman S.A., amounted to PLN 183 203 thousand.
At the same time, due to the mentioned acquisition, the Group took over the goodwill already existing in the assets of GK Artman, arising from the purchase of 100% of shares in the company UAB House Plius in the amount of PLN 406 000.

Pursuant to IAS 36 and accounting policy as of 31 December 2010, an impairment test was conducted for the goodwill of Artman company with the carrying value of PLN 183,203 thousand.
The recoverable amount of cash-generating units to which a value was assigned was determined on the basis of their value in use, using the method of discounted cash flow (DCF).

Detailed estimates' assumptions are as follows:

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

- the period including estimated cash flows for 15 years (2011-2025), without taking into account the residual value,

- annual forecasts of revenues and expenses in 2011 (according to the company's budget) and subsequent years
- forecast revenues and expenses for retail shops acquired together with ARTMAN company and still active (58 own retail shops and 58 franchise retail shops)
- annual sales in tested retail shops - about 10% higher in 2011 compared to 2010 and sales increase by 4% in subsequent years
- operating costs in tested retail shops - about 9% higher in 2011 compared to 2010 and sales increase by 2.5% in subsequent years
- Costs of HOUSE sales department, HOUSE goods production preparation department and marketing costs of HOUSE trademark - increasing from year to year by 2.5% and assigned to tested retail shops by proportion of the quantity of acquired (and still operating) shops at the time of merger to all HOUSE retail shops.
- discount rate within the forecast period is variable and is calculated on the basis of WACC. The rate of WACC is 10.3% in 2011 and rising to 11% in 2014 and then remains at a constant level. WACC variability results from the fact of successive loan repayments in the period: 2011-2014.

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

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

The following table shows changes in the company's goodwill that are subject to a test for impairment:
in PLN '000

Gross value	31 December 2010	31 December 2009
Opening balance	183 203	
Increases		183 203
Reductions		
Closing balance	183 203	183 203

Write-downs	31 December 2010	31 December 2009
Opening balance	0	0
Closing balance	0	0

Net value	31 December 2010	31 December 2009
Opening balance	183 203	0
Closing balance	183 203	183 203

14.5. Shares in subsidiaries

The following item in the balance sheet "Shares in subsidiaries" includes only the shares in domestic companies, which are not included in the consolidation.
Shares value is PLN 212 thousand

Shares balance sheet valuation is made according to purchase prices, less impairment write-offs. Results of the analysis carried out as at the balance sheet date did not show that there was a need to perform impairment write-offs of assets possessed by the Capital Group.
In the reporting period, on 31 December 2010, 12 domestic companies were liquidated.
During this period, the sale of a significant part of shares of one of the domestic subsidiaries took place resulting in a change in the status of this entity from a subsidiary to an associate.

14.6 Investments in associates

As LPP S.A. sold majority of shares of one of its subsidiaries, the character of that entity changed from a subsidiary to an associate.
The carrying value of shares of that entity as at 31 December 2010 amounts to PLN 19 thousand and it will be valued using the equity methods in subsequent periods.

14.7 Financial assets and liabilities

14.7.1 Categories of financial assets and liabilities

The value of financial assets presented in the consolidated balance sheet relates to the following categories of financial instruments defined in IAS 39:

1. loans and receivables (L&R)
2. financial assets measured at fair value in the income statement (AFV)
3. financial assets available for sale (AAS)

As at 31.12.2010 in PLN thousand

Fixed assets	L&R	AFV	AAS
Receivables and loans	1 062		
Current assets	L&R		AAS
Trade receivables	95 742		
Other receivables	893		
Loans	237		
Other securities			16 430
Other financial assets		53 064	
Cash and cash equivalents	96 470		

As at 31.12.2009 in PLN thousand

Fixed assets	L&R	AFV	AAS
Receivables and loans	1 057		
Current assets	L&R		AAS
Trade receivables	78 271		
Other receivables	863		

Loans	541		
Cash and cash equivalents	197 482		

The value of financial liabilities presented in individual balance sheet refers only to one of the categories of financial instruments specified in IAS 39 as financial liabilities measured at amortized cost (LAC).

As at 31.12.2010 in PLN thousand

Long-term liabilities	LAC
Bank loans and borrowings	156 096
Issue of debt securities	121 524
Other financial liabilities	88
Short-term liabilities	LAC
Trade payables and other liabilities	255 635
Bank loans and borrowings	86 637
Issue of debt securities	3 906
Other financial liabilities	96

As at 31.12.2009 in PLN thousand

Long-term liabilities	LAC
Bank loans and borrowings	227 270
Issue of debt securities	115 514
Other financial liabilities	215
Short-term liabilities	LAC
Trade payables and other liabilities	183 770
Bank loans and borrowings	76 472
Issue of debt securities	5 465
Other financial liabilities	367

14.7.2 Receivables and loans

For the purposes of presentation in the consolidated balance sheet, the Capital Group distinguishes a class of receivables and loans (IFRS 7.6). In the long-term part, receivables and loans are presented as one item in the balance sheet. In the short-term part, pursuant to IAS 1, the Group presents trade receivables and other receivables separately.
Balance sheet items of the receivables and loans class are presented in the table below.
in PLN '000

	31 December 2010	31 December 2009
Fixed assets:		
Receivables	958	955
Loans	104	102
Long-term receivables and loans	1 062	1 057
Current assets		
Trade and other receivables	96 635	79 134
Loans	237	542
Short-term receivables and loans	96 872	79 676
Receivables and loans, including:	**97 934**	**80 733**
Receivables (note 14.9)	97 593	80 089
Loans (note 14.7.2)	341	644

Loans granted are measured at depreciated cost based on the effective interest rate method. In the absence of an active market it was assumed that the carrying value of loans is the same as their fair value.

In local currency only loans for employees were granted. Their carrying value as at 31 December 2010 amounts to PLN 341 thousand (2009: PLN 644 thousand). These agreements are concluded for a maximum of 3 years. Principal amounts are repaid in monthly instalments, and interests with a fixed rate of 7% per annum are due at the time of the repayment of the last instalment.
At the end of the balance sheet period they are assessed in terms of their impairment.
Results of the analysis carried out as at the balance sheet date did not show that there was a need to perform impairment write-offs of loans taken by LPP Capital Group.

Change in the gross carrying value of loans, including their write-downs, is as follows:
in PLN '000

Gross value	31 December 2010	31 December 2009
Opening balance at the beginning of the reporting period	644	1 121
The amount of loans granted during the period	200	
Calculation of interest	38	63
Repayment of loans and the interest	541	540
Closing balance at the end of the reporting period	341	644

Disclosures regarding cash and cash equivalents will be presented in the note 14.10

14.7.3 Other financial assets

Under the remaining financial assets the Group presents investments in the category of financial assets measured at fair value in the income statement and financial assets available for sale.

Assets measured at fair value in the income statement
The only investments of the Capital Group in this category are units in the debt securities fund of a defensive nature. Units share value was determined based on the table of unit values presented as at the balance sheet date and amounts to PLN 53 064 thousand.

Assets available for sale
Other investments are commercial bonds secured, currently quoted on the Catalyst market, with the carrying value of PLN 16 430 thousand.

GK does not have financial assets which are a security on liabilities or contingent liabilities. There is also no security established over the Group.

Accrued interest presented in the Financial revenues are specified in the note 14.19.

14.7.4 Bank credits and loans and other debt instruments

The Capital Group does not recognise any instruments from the credit and loans class into financial liabilities selected for valuation at fair value in the income

statement. All credits, loans and other debt instruments are measured at depreciated cost based on the effective interest rate.

As at 31 December 2010, the Company's debt arising from bank credits was as follows:

Bank	use of credits as of 31 December 2010		Credit costs	Maturity date
	in PLN '000	currency in 000		
PKO BP S.A.	78 486		wibor 1 m + bank's margin	4 November 2017
PKO BP S.A.	148 869		wibor 1 m + bank's margin	30 June 2013
Pekao SA	14 838		wibor 1 m + bank's margin	31 July 2011
BNP Fortis SA	139		wibor 1 m + bank's margin	20 December 2011
Raiffeisen Bank Polska SA	16	USD 5	libor 1m + bank's margin	30 September 2011
Unicredit Prague	57	364 CZK	pribor 1 m + bank's margin	16 July 2012
Unicredit Tiriac Bank SA	328	355 RON	euribor 1 m + bank's margin	31 July 2011
TOTAL	242 733			

Bank credits amounting to PLN 242,733 thousand include:
- long-term credits in the amount of PLN 156,096 thousand,
- short-term credits in the amount of PLN 86 637 thousand (including PLN 71 643 thousand which is a part of long-term investment credits to be paid within 12 months mature after the balance sheet date)

As of 31 December 2009, the Group’s debt arising from bank credits was as follows:

Bank	use of credits as at 31 December 2009		Credit costs	Maturity date
	in PLN '000	currency in '000		
PKO BP S.A.	89 830		wibor 1 m + bank’s margin	4 November 2017
PKO BP S.A.	208 545		wibor 1 m + bank’s margin	30 June 2013
Unicredit Prague	4 828	3 071 CZK	pribor 1 m + bank’s margin	30 June 2010
Unicredit Tiriac Bank SA	539	555 RON	euribor 1 m + bank's margin	30 June 2010
TOTAL	303 742			

Bank credits amounting to PLN 303 742 thousand include:
- long-term credits in the amount of PLN 227 270 thousand,
- short-term credits in the amount of PLN 76 472 thousand.

Detailed data on bank credits is as follows:

Bank	Type of credit/line	Credit amount and currency: in '000	Credit amount and currency: currency	Security
PKO BP S.A.	Multi-purpose and multi currency credit line	100 000	PLN	2 blank promissory notes
PKO BP S.A.	Investment Credit	100 000	PLN	ordinary real estate mortgage and deposit mortgage, transfer of liabilities from an insurance, blank promissory note
PKO BP S.A.	Investment Credit	394 800	PLN	ordinary real estate mortgage and deposit mortgage, transfer of liabilities from an insurance, blank promissory note, registered pledge on Reserved, Cropp, House trademarks
Pekao S.A.	Multi-purpose and multi currency credit line	115 000	PLN	blank bill of exchange power of attorney for accounts
BNP Fortis S.A.	Multi-purpose and multi currency credit line	100 000	PLN	blank bill of exchange
Raiffeisen Bank Polska S.A.	Multi-purpose and multi currency credit line	100 000	PLN	blank bill of exchange,
Unicredit Tiriac Bank SA	Credit line	1 800	EUR	guarantee of PEKAO S.A.
Unicredit Prague	Credit line	37 500	CZK	guarantee of PEKAO S.A.

In the reporting period, in the case of loans, there was no situation in which the company defaulted on payments or conditions of the contracts.

Apart from bank credits, Capital Group also has other debt instruments in the form of convertible bonds. 80 846 bonds were taken up as a result of the offering. Price of bond conversion into shares amounted to PLN 1600.
The aim of bonds' issue was to gather funds needed to ensure uninterrupted business activity and further development of the Issuer.
The right to receive shares of series K through conversion of bonds may be executed every 6 months after the date of repayment the interests for the passing period.
Bonds that will not be converted into shares of series K will be redeemed by the Company on the date of the lapse of 36 months from the date of the allotment of bonds. Maturity date is 23 July 2012.
If all issued bonds were converted, the total number of votes at GSM would be 3 231 123.

Valuation as at the balance sheet date under IAS 39 is performed in accordance with the amortized cost using the effective interest rate.
Annual discount rate used to carry out the valuation amounted to 10.18%.

After initial recognition in the book of the bonds in the purchase price, this value was divided into liabilities part and equity part which is an option of the convert this instrument into shares.

Equity component of this instrument was demonstrated in the remaining valuation equity in the amount of PLN 12 290 thousand.

In 2010 the Capital Group made repayments of interest instalments in the total amount of PLN 8 227 thousand. In the reporting period no conversion of bonds into shares occurred.
As at 31.12.2010 the value of the liability component amounts to PLN 125 430 thousand (2009: PLN 120 979 thousand) including PLN 3 906 thousand of accrued interest.

Detailed information on the recognized financial instruments in financial revenues and costs is presented in the note 13.19 and 13.20.

14.7.5 Other information on financial instruments

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

2010 in PLN '000

Assets *	Fair value	Carrying amount
Trade and other receivables	120 204	120 204
Other securities	16 430	16 430
Other financial assets	53 064	53 064
Cash and cash equivalents	96 470	96 470
Total	286 168	286 168
Liabilities	Fair value	Carrying amount
Bank loans and borrowings	242 733	242 733
Debt securities	125 430	125 430
Trade and other payables	255 635	255 635
Other financial liabilities	184	184
Total	623 982	623 982

2009 in PLN '000

Assets *	Fair value	Carrying amount
Trade and other receivables	94 381	94 381
Cash and cash equivalents	197 482	197 482

Total	291 863	291 863
Liabilities	Fair value	Carrying amount
Bank loans and borrowings	303 742	303 742
Debt securities	120 979	120 979
Trade and other payables	183 770	183 770
Other financial liabilities	582	582
Total	609 073	609 073

*due to the lack of possibility of reliable pricing, the table does not include unquoted equity instruments valued at purchase price and value of loans priced with amortized cost method for which there is no active market.

Fair value is defined as the amount for which on market conditions the asset could be exchanged or a liability settled, between knowledgeable, interested and unrelated parties. In the case of financial instruments for which there is an active market, fair value is determined based on parameters from the active market (sales and purchase prices). In the case of financial instruments for which there is no active market, fair value is determined on the basis of valuation techniques, where input data of the model are variables derived from active markets (exchange rates, interest rates).

In the Group's assessment, the carrying value of financial assets and financial liabilities is close to the fair value.

14.8 Inventories

Trading commodities are the key item of the Capital Group’s inventories. The structure of inventories as at the balance sheet date is presented in the table below:
in PLN '000

INVENTORIES	31.12.2010	31.12.2009
1) materials	3 018	4 102
2) commodities	421 419	318 654
TOTAL	424 437	322 756

The value of inventories disclosed in the balance sheet was reduced by the amount of a write-down. Changes in the amount of valuation allowance in the reporting period and comparative period are presented in the table below:
in PLN '000

INVENTORIES REVALUATION WRITE-DOWN	31.12.2010	31.12.2009
Opening balance at the beginning of the reporting period	4 484	4 510
Write-offs recognized as costs in the period	1 376	1 868
Reversed write-offs in the period	1 803	2 150
Foreign exchange differences	-118	256
Closing balance at the end of the reporting period	3 939	4 484

As at 31 December 2010 the value of inventories recognized as an expense during the reporting period amounted to PLN 966 049 thousand.

14.9 Receivables

Trade and other receivables recognised by the Capital Group under the class of receivables and loans (see note 14.7) are as follows:

Long-term receivables in the carrying amount of PLN 958 thousand (2009: PLN 955 thousand) are only several deposits paid.

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

in PLN '000

SHORT-TERM RECEIVABLES	31.12.2010	31.12.2009
Trade receivables	102 299	90 750
Revaluation write-downs of trade receivables	6 557	12 479
Net trade receivables	95 742	78 271
Other receivables	1 211	987
Revaluation write-downs of other receivables	318	124
Other receivables net according to IAS 39	893	863
Other receivables beyond IAS 39	22 611	14 292
Short-term receivables total	119 246	93 426

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

in PLN (000).

RECEIVABLES REVALUATION WRITE-DOWNS	31.12.2010	31.12.2009
Opening balance at the beginning of the reporting period	12 603	11 605
Write-offs created in the period	1 256	6 259
Reversed write-offs in the period	6 997	5 338
Foreign exchange rate differences	13	77
Closing balance at the end of the reporting period	6 875	12 603

14.10 Cash

in PLN '000

CASH	31.12.2010	31.12.2009
1) cash in hand and cash at banks	66 208	54 323
2) other cash	30 262	143 159
TOTAL	96 470	197 482

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

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

in PLN (000)

CASH – CURRENCY STRUCTURE	31.12.2010	31.12.2009
in the Polish currency	38 028	121 296
in foreign currencies (by currency)	58 442	76 186
- USD	22 832	11 924
- RMB	1	1 114
- EUR	7 260	2 414
- LVL	504	81
- EEK	1 148	3 376
- CZK	5 893	36 094
- UAH	2 001	4 878
- LTL	2 028	1 295
- HUF	2 277	102 653
- RUB	8 846	170 298
- BGN	4 336	1 051
- RON	1 316	1 764
TOTAL (in PLN '000).	96 470	197 482

As at 31 December 2010, the Group had free borrowed funds in the amount of PLN 354,941 thousand.

In the period from 1 January to 31 December 2010, the Capital Group made non-cash settlements with its clients in the total amount of PLN 11,698 thousand (in the form a trade-off of mutual payables and receivables).

14.11 Discontinued operations

The amounts presented in the consolidated income statement for 2010 as one item regarding the discontinued operations (i.e. Net profit/loss from discontinued operations) referring to the investment agreement between LPP SA and the company Esotiq&Henderson SA (third party, independent from LPP SA). The investment agreement concerned the isolation and transfer outside the LPP SA structure of the business activities regarding two brands: Henderson and Esotiq.

In December LPP SA sold to Esotiq&Henderson SA commercial goods, tangible fixed assets and other assets associated with conducting commercial activities under these two brands.

The table below presents the disclosures required by IFRS 5 related to discontinued activity for the current period and comparative period in the income statement.

in PLN '000

Item	**01.01.2010-31.12.2010**	**01.01.2009-31.12.2009**
Revenues from discontinued operations	61 598	58 671
Costs of discontinued operations	59 324	59 996
Net profit/loss from discontinued operations	2 274	- 1 325
Tax burden	432	-252
Net profit/loss from discontinued operations	1 842	-1 073
Gross profit/loss on sale of assets	-1 505	
Tax burden	-286	
Net profit/loss on sale of assets	-1 219	
Total net profit/loss from discontinued operations	623	-1 073

The difference between the amount of net profit/loss from table (PLN 1 073 thousand) and the income statement (PLN 1 160 thousand) for 2009 is different by PLN 87 thousand and regards the liquidation in that time of the subsidiary acquired by LPP SA from Artman SA.

In view of high cost of obtaining the detailed information necessary for preparing the reliable report on the cash flow of discontinued operations, including annual, quarterly and comparative periods, and due to the insignificance of information for potential users of the statements, the Group, using the exemption as described in section 44 of Conceptual Guidelines on drawing up and presenting financial statements according to IFRS, has not presented the data on the cash flow of discontinued operations.

14.12 Equity

Primary capital.
Primary capital of the Group is the share capital of the parent company.
As at 31 December 2010 it amounts to PLN 3 500 554. This capital is divided into 1 750 277 shares of nominal value of PLN 2 each.

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

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

All issued shares are paid up in full.
In the reporting period, LPP S.A. paid dividends to its shareholders. A part of the profit generated in 2009 in the amount of PLN 86 443 950 was allocated for dividends, which corresponded to the amount of PLN 50 per a legitimate share.
Ordinary shares were allocated the amount of PLN 68,943,950 and the preferred shares - PLN 17,500,000.
350,000 registered shares held by Marek Piechocki and Jerzy Lubianiec are preference shares in terms of voting rights at the General Meeting of Shareholders. Each registered share carries 5 votes.

Ownership structure of share capital of LPP S.A. as of 31 December 2010:

Shareholder	Number of held shares (pieces)	Number of votes at the General Meeting of Shareholders	Share in the total vote at the General Meeting of Shareholders	Interest in share capital	Nominal value of shares
Marek Piechocki	175 000	875 000	27.78%	10.00%	350 000
Jerzy Lubianiec	175 000	875 000	27.78%	10.00%	350 000
Monistor Limited (Cyprus)	200 728	200 728	6.37%	11.47%	401 456
Grangefont Limited, with its registered office in London, UK	350 000	350 000	11.11%	20.00%	700 000
Aviva OFE	157 962	157 962	5.01%	9.02%	315 924
Other shareholders	691 587	691 587	21.95%	39.51%	1 383 174
TOTAL	1 750 277	3 150 277	100.00%	100.00%	3 500 554

Share premium reserve
The separated value of spare capital resulting from the surplus achieved while selling the shares above their nominal value with the carrying value of PLN 108 123 thousand.

Other reserves
The value of other capital results from the sum of spare capital, reserve capital, capital from the settlements of the merger and the equity component of convertible bonds.

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

in PLN '000

TYPE OF CAPITAL	31 December 2010	31 December 2009
Spare capital	536 486	501 116
Reserve capital	193	193
Capital from the settlement of the merger	-1 410	-1 410
Principal part of bonds	12 290	12 290
TOTAL	547 559	512 189

Spare capital presented in this part of equity as at 31 December 2010 was formed mostly from the net profit of previous years and as the effect of share-based remunerations.
Part of the spare capital created by law pursuant to the Article 396 of the Code of Commercial Companies may be used in the future only to cover the potential loss.

The structure of the spare capital is as follows:

in PLN (000)

TYPE OF SPARE CAPITAL	31 December 2010	31 December 2009
created on a statutory basis based on write-off from financial result	1 280	1 251
created as per Articles of Association based on write-off from financial result	525 847	490 506
created from share-based payments	9 359	9 359
TOTAL	536 486	501 116

Equity capital of the parent company in the period of hyperinflation

Conversion of the equity in the hyperinflationary period was based on the following data:
1. 18 December 1989 - establishment of the company and contribution of share capital in the amount of (after denomination) PLN 200
2. 4 May 1995 - acquisition of the company by Marek Piechocki and Jerzy Lubianiec
3. 12 April 1995 - registration of the increase of share capital up to PLN 700 thousand
4. 24 October 1995 - adoption of the resolution on the increase of share capital up to PLN 1 500 thousand
5. 4 January 1996 – adoption of the resolution on the increase of share capital up to PLN 2 200 thousand

in PLN '000

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

1) capital as at the end of 1995 + retained result for 1995

2) capital increase + agio

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

14.13 Subsidies

In 2010, the company benefited from subsidies in the form of 'de minimis aid' amounting to PLN 321 thousand (2009: PLN 303 thousand). This is public aid, governed by Community rules, granted for a period of 3 years. The amount of such aid over three years shall not exceed EUR 200 000. LPP SA received aid concerning tax on the property built in Pruszcz.

14.14 Provisions

As at the balance sheet date the Group has provisions in the balance sheet liabilities in the total amount of PLN 4 147 thousand.

Provision for retirement benefits

This provision is created only by the parent company. In other subsidiaries excluding Slovakia, gratuities are not paid. LPP S.A. determines the amount of this provision individually, based on actuarial methods.

Provision for holiday compensations.

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

Provision for non-paid remuneration.

This provision is created only by the parent company for the future remunerations paid in connection with the created incentive scheme.

in PLN '000

	Provision for pensions and similar benefits	Provision for non-paid remuneration.	Provision for liabilities	Provision for holiday compensation
As at 1 January 2010	1 031	102	39	2 722
- provision creation	1 025			3 122
- release of the provision	1 031	102	39	2 722
As at 31 December 2010	1 025	0	0	3 122

14.15 Contingent liabilities

In 2010, Capital Group companies used bank guarantees to secure payment of rent for leased retail premises where brand stores are located.

As at 31 December 2010 the total value of bank guarantees issued to the order of and on the responsibility of the Capital Group amounted to approximately PLN 96 957 thousand, including:

a) the value of guarantees issued to secure the agreements concluded by LPP SA amounted to PLN 57 117 thousand
b) the value of guarantees issued to secure the agreements concluded by affiliated entities included in the consolidation amounted to PLN 37 123 thousand
c) the value of guarantees issued to secure the agreements concluded by affiliated entities not included in the consolidation amounted to PLN 2 457 thousand
d) the value of guarantees issued to secure the agreements for office space lease concluded by LPP SA amounted to PLN 260 thousand

On 31 December 2010 the value of sureties granted by the parent company amounted to PLN 13 768 thousand and increased in comparison with 31 December 2009 by PLN 1.481 thousand.

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

14.16 Future liabilities arising from retail lease agreements

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

Total future minimum payments under lease agreements, estimated as at 31 December 2010, are as follows:
- payables with the maturity date within 12 months from the balance sheet date PLN 278,128 thousand
- payables with the maturity date from 12 months to 5 years from the balance sheet date PLN 692,686 thousand
- payables with the maturity date over 5 years from the balance sheet date PLN 229,009 thousand

Under expenses of the reporting period from 1 January to 31 December 2010, the amount of PLN 272 289 thousand 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 establishing these payments are typical for this type of contracts. Apart from the minimum rent, these agreements usually provide for additional contingent rent if a specified level of revenues in the store is generated.

Contingent rent is calculated as a percentage of these revenues. In the reporting period, the amount of contingent rent was immaterial and represented only 2.12% of the total amount of rent. Retail lease agreements also contain adjustment clauses, linking the amount of rent with statistical price indices. Some agreements also contain clauses for possible renewal of the contract for another period, at the option of the lessee. As these retail lease agreements refer to premises located mainly in large shopping malls, they do not provide for the purchase of premises.

14.17 Trade and other payables

in PLN (000)

SHORT-TERM PAYABLES	31.12.2010	31.12.2009
Trade payables	255 635	183 770
Other financial liabilities	96	367
Financial liabilities according to IAS 39	255 731	184 137
Liabilities from taxes and other benefits	56 819	55 085
Other non-financial liabilities	1 017	788
Non-financial liabilities	57 836	55 873
Total short-term liabilities	**313 567**	**240 010**

14.18. Accruals and prepayments

in PLN (000)

ACCRUALS AND PREPAYMENTS - ASSETS	31.12.2010	31.12.2009
Long-term		
Software supervision	167	172
Other long-term settlements	10	3
Total long-term prepayments and accruals	**177**	**175**
Short-term		
Rent	4 368	5 301
Insurance	1 124	1 304
Software supervision	299	119
Other	771	681
Total short-term prepayments and accruals	**6 562**	**7 405**

in PLN '000

PREPAYMENTS AND ACCRUALS - LIABILITIES	31.12.2010	31.12.2009
Returns of goods from domestic sale	754	1 205
Selling gift cards and vouchers	1 657	1 214
Other	1 253	597
Total accruals	**3 664**	**2 419**

14.19 Revenues

in PLN '000

REVENUES	01.01.10-31.12.10	01.01.09-31.12.09
1) net revenues from sales of services	35 371	26 163
2) net revenues from sales of goods and materials	2 043 987	1 976 932
Total revenues	2 079 358	2 003 095
Exclusion of discontinued operations	82 199	57 728
Revenues excluding discontinued operations	**1 997 159**	**1 945 367**

The Group's revenues from sales of services concern the parent company only. Services provided by the company include, above all:

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

in PLN '000

OTHER OPERATING REVENUES	01.01.10-31.12.10	01.01.09-31.12.09
1. Profit from the disposal of non-financial fixed assets	8 921	6 869
2. Subsidies	321	303
3. Other operating revenues, including:	13 404	21 012
- reversal of fixed assets write-downs	1 295	2 292
- reversal of receivables write-downs	3 268	3 988
- reversal of provisions write-downs	1 803	2 150
Total operating revenues	22 646	28 184
Exclusion of discontinued operations	-1 103	805
Operating revenues excluding discontinued operations	**23 749**	**27 379**

in PLN '000

FINANCIAL REVENUES	01.01.10-31.12.10	01.01.09-31.12.09
1. Interest, including	5 435	1 313
- on deposits	2 085	1 248
- on loans and receivables	38	65
- on bonds	1 295	
- on financial instruments measured at fair value through financial result	2 017	
2. Dividends	242	1 381
3. Profit from the disposal of investments	1 037	
4. Other	3 976	282
- including the balance of foreign exchange differences	3 687	
Total financial revenues	10 690	2 976
Exclusion of discontinued operations	162	138

Financial revenues excluding discontinued operations	**10 528**	**2 838**

14.20 Costs

in PLN '000

EXPENSES BY TYPE	01.01.10-31.12.10	01.01.09-31.12.09
1) depreciation and amortisation	94 424	96 131
2) consumption of materials and energy	52 269	47 847
3) outsourced services	597 682	547 966
4) taxes and fees	15 082	14,608
5) remuneration	102 622	103 772
6) social insurance and other benefits, including:	23 707	23 855
- pension contribution	4 599	4 329
7) other expenses by type	40 866	26 894
Total expenses by type	926 652	861 073
Exclusion of discontinued operations	29 732	25 662
Expenses by type excluding discontinued operations	**896 920**	**835 411**

Change in products - 49 -470

The value of sales and general administrative expenses 896 969 836 881 presented in income statement excluding discontinued operations

in PLN '000

OTHER OPERATING COSTS	01.01.10-31.12.10	01.01.09-31.12.09
1) Revaluation of non-financial assets	3 094	14 027
- fixed assets	825	6 470
- inventories	1 376	1 868
- receivables	893	5 689
2) Other	25 378	28 208
Total operating costs	28 472	42 235
Exclusion of discontinued operations	811	2 621
Operating costs excluding discontinued operations	**27 661**	**39 614**

FINANCIAL EXPENSES	01.01.10-31.12.10	01.01.09-31.12.09
1) Interest	26 884	27 480
- regarding bank loans	13 810	21 695
- regarding debt securities	12 679	5 465
2) Other, including:	2 004	17 523
- commissions on bank credits and guarantees	1 983	1 656
- balance of foreign exchange differences		15 867
Total financial expenses	28 888	45 003

Exclusion of discontinued operations	157	119
Financial expenses excluding financial operations	**28 731**	**44 884**

14.21 Income tax

The main components of the tax liabilities of the Group for the year 2010 and the comparative period are shown in the table.

in PLN (000)

Income statement	2010	2009
Current income tax	39 615	47,459
Deferred income tax	3 791	-12 929
Total income tax	43 406	34 530
Exclusion of discontinued operations	146	-252
Income tax excluding discontinued operations	**43 260**	**34 782**

Reconciliation of income tax calculation disclosed in the consolidated income statement for the years 2010 and 2009 is shown in the table below.
in PLN '000

INCOME TAX	2010	2009
Gross profit/loss of the Group before consolidation adjustments	150 081	114 892
Adjustments of costs and permanent tax-exempt revenue	28 995	20 404
Gross profit/loss of the Group after the adjustments	179 076	135 296
Income tax at the average rate 19.30%, 22.41%	34 431	31 030
Tax consolidation adjustments	9 755	4 207
Tax relieves	-780	-707
Income tax disclosed in the income statement	43 406	34 530
Exclusion of discontinued operations	146	-252
Income tax excluding discontinued operations	**43 260**	**34 782**

Income tax is calculated according to the following rates:
- LPP S.A. – 19 %,
- ZAO Re Trading (Russia) – 20%,
- Es Style (Russia) – 20%,
- Fashion Point (Russia) – 20%,
- UAB „LPP" (Lithuania) – 15%,
- LPP Reatil Latvia (Latvia) – 15%,
- LPP Ukraine AT – 25%
- LPP Retail Bulgaria – 10%
- LPP Fashion Distribuitor – 24%
- Artman Slovakia – 20%

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

in PLN (000)

DEFERRED INCOME TAX ASSETS:	31.12.2010	31.12.2009
surplus of balance sheet depreciation value over tax value of fixed assets	5 998	4 962
foreign exchange differences – payables		4 632
revaluation of trade receivables	488	1 216
interest on bonds	1 590	744
profit margin on goods unsold outside the Group	3 543	3205
revaluation of inventories	365	479
tax loss	3 686	5 845
other	821	962
TOTAL	16 491	22 045

PROVISION FOR DEFERRED INCOME TAX:	31.12.2010	31.12.2009
accelerated tax depreciation	1 362	1 768
not yet received interest on loans granted	16	103
not yet received compensation	107	96
foreign exchange differences – receivables		777
accrued interest on bank loans	484	595
accrued interest on securities	455	
other	40	356
TOTAL	2 464	3 695

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

The deferred share of income tax shown in the income statement for the years 2010 and 2009 results from the items presented in the following tables.

in PLN '000

DEFERRED INCOME TAX ASSETS:	2010	2009
surplus of balance sheet depreciation value over tax value of fixed assets	1 036	-281
foreign exchange differences – payables	-4 632	4 448
revaluation of trade receivables	-728	-164
profit margin on goods unsold outside the Group	338	308
interest on bonds	846	
revaluation of fixed assets		-242
revaluation of inventories	-114	-92
tax loss	-2 159	-756
other temporary differences	-141	-1 033
conversion foreign exchange differences	520	-302
TOTAL	-5 034	1 886

PROVISION FOR DEFERRED INCOME TAX:	2010	2009
accelerated tax depreciation	-406	-4 916
not yet received interest on loans granted	-87	89
not yet received compensation	11	33
foreign exchange differences – receivables	-777	-6 896
accrued interest on bank loans	-111	
accrued interest on securities	455	
others	-316	541
conversion foreign exchange differences	-12	106
TOTAL	-1 243	-11 043

14.22 Earnings per share and diluted earnings per share

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

	01.01.10-31.12.10	01.01.09-31.12.09
Net profit (loss) from continuing operations of the current period	138 460	105 794
Weighted average number of ordinary shares	1 728 879	1 726 514
Profit (loss) per share	80.09	61.28

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

14.23. Related party transactions

The Group's related parties include:

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

14.23.1 Key personnel

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

The value of short-term employee benefits of key management personnel, for the period from 1 January to 31 December 2010, amounted to PLN 2 008 thousand. Remunerations presented separately for each person being a member of key personnel are as follows:
Marek Piechocki, President of the Management Board, PLN 540 thousand,
Dariusz Pachla, Vice President of the Management Board, PLN 360 thousand

Piotr Dyka, Vice President of the Management Board, PLN 387 thousand
Hubert Komorowski, Vice President of the Management Board, PLN 361 thousand
Jacek Kujawa, Vice President of the Management Board, PLN 360 thousand
Jerzy Lubianiec, Chairman of the Supervisory Board, PLN 12 thousand and PLN 10 thousand – for services other than membership in the Supervisory Board,
Other members of the Supervisory Board obtained a total of PLN 38 thousand.

For the Management Board members as at 31 December 2010 provisions for retirement severance payments have been accrued, amounting to PLN 59 thousand (2009: PLN 51 thousand), and for not taken leaves amounting to PLN 75 thousand (2009: 85 thousand).

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

14.23.2 Transactions with affiliated entities

in PLN '000

No.	AFFILIATED ENTITIES	payables as at 31 December 2010	receivables as at 31 December 2010	revenues in 2010	expenses in 2010
1.	Polish subsidiaries – total	202	645	82	10 366
TOTAL		202	645	82	10 366

No.	AFFILIATED ENTITIES	payables as at 31 December 2009	receivables as at 31 December 2009	revenues in 2009	expenses in 2009
1.	Polish subsidiaries – total	1 003	349	4 619	28 304
TOTAL		1 003	349	4 619	28 304

Amounts presented in the table show only intercompany transactions between LPP SA and 6 Polish non-consolidated subsidiaries and are presented from the point of view of the parent company.
Data presented as payables of LPP SA are receivables in affiliated companies, and expenses are equivalent to revenues of the given companies.
All transactions with affiliated entities were concluded at arm's length.
Revenues from Polish companies are generated from rental of offices where these companies run their businesses.
Expenses related to Polish subsidiaries are connected with lease of premises for Cropp Town and Reserved brand stores.
Payment terms adopted for subsidiaries are between 45 and 120 days.

14.24 Segments of operation

Financial results and other information regarding geographical segments for the period from 1 January 2010 to 31 December 2010 and for the comparative period have been presented in the tables below.
These figures were presented after exclusing discontinued operations.

2010 in PLN '000

	EU Member States	Other countries	Consolidation adjustments	Amounts not allocated to segments	Total
Sales to external customers	1 718 654	278 505			1 997 159
Sales between segments	134 446		-134 44		-
Other operating revenues	12 005	1 251		10 493	23 749
Total revenues	*1 865 105*	*279 756*	-134 446	*10 493*	*2 020 908*
Total operating expenses, including	1 590 995	243 947	-132 732	91 114	1 793 324
Costs of sales between segments	99 513		-99 513		-
Other operating expenses	22 856	4 805			27 661
Segment results	*251 254*	*31 004*	*-1 714*	*-80 621*	*199 923*
Financial revenues					10 528
Financial expenses					28 731
Profit before tax					*181 720*
Income tax					43 260
Net profit from continuing operations					*138 460*
Profit from discontinued operations					623
Net profit					*139 083*

Segment assets	1 379 981	133 102	-168 523		1 344 560
Unallocated assets across the group				84 460	84 460
Total consolidated assets					*1 429 020*
Segment liabilities	315 116	143 852	-137 122		321 846
Unallocated liabilities of the entire group				370 628	370 628
Total consolidated liabilities					*692 474*

Other disclosures	EU Member States	Other countries
Segment capital expenditure	71 306	20 525
Segment depreciation	78 465	15 959
Impairment write-offs	2 966	128
Release of impairment write-offs	5 696	670
Other non-cash expenses	19 890	4 677

2009 in PLN '000

	EU Member States	Other countries	Consolidation adjustments	Amounts not allocated to segments	Total
Sales to external customers	1 729 462	215 905			1 945 367
Sales between segments	99 404		-99 404		-
Other operating revenues	19 665	1 229		6 485	27 379
Total revenues	*1 848 531*	*217 134*	*-99 404*	*6 485*	*1 972 746*
Total operating expenses, including	1 559 314	195 879	-94 578	89 896	1 750 511
Costs of sales between segments	72 758		-72 758		-
Other operating expenses	35 772	3 842			39 614
Segment results	*253 445*	*17 413*	*-4 826*	*-83 411*	*182 621*
Financial revenue					2 838
Financial expenses					44 883
Profit before tax					*140 576*
Income tax					34 782
Net profit from continuing operations					*105 794*
Loss from discontinued operations					-1 160
Net profit					*104 634*

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

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

*Assets impairment write-offs by segments shown in the income statement include:

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

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

Marek Piechocki

President of the Management Board

Dariusz Pachla Hubert Komorowski Piotr Dyka Jacek Kujawa

Vice-President of the Management Board Vice-President of the Management Board Vice-President of the Management Board Vice-President of the Management Board

Gdańsk, 12 April 2011

MANAGEMENT BOARD REPORT ON LPP S.A. CAPITAL GROUP OPERATIONS FOR 2010

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

LPP SA Capital Group is composed of 7 Polish companies (including the parent company) and 13 foreign companies.
The financial statements of LPP S.A. Capital Group covering the period between 1 January and 31 December 2010 includes individual results of LPP S.A. for the said period and results of consolidated companies listed below (covered by the consolidated financial statements as at 31 December 2010)

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

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

Source of revenues	2010		2009	
	PLN '000	Share in sales volume %	PLN '000	Share in sales volume %
Sales of trading commodities	2 043 987	98.30%	1 976 933	98.69%
Sales of services	35 371	1.70%	26 162	1.31%
Total	**2 079 358**	**100.00%**	**2 003 095**	**100.00%**

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

Channel of distribution	2010 PLN '000	2010 Share in sales volume %	2009 PLN '000	2009 Share in sales volume %	Change %
Reserved brand stores	1 098 913	52.85%	1 118 211	55.82%	-1.73%
Exports	52 525	2.53%	42 887	2.14%	22.47%
Cropp brand stores	382 283	18.38%	364 619	18.20%	4.84%
House brand stores	289 762	13.94%	289 842	14.47%	-0.03%
Other	255 875	12.31%	187 536	9.36%	36.44%
Total	**2 079 358**	**100.00%**	**2 003 095**	**100.00%**	3.81%

2. Information on markets (both Polish and foreign) and change in sources of supply of production materials, goods and services, indicating dependence on one or several customers and suppliers; customers or suppliers with at least 10% share in total revenues from sales – their name, share in sales or supply volumes, and formal relations with the Issuer's Capital Group.

Revenues from sales of products, goods and materials disclosed in the consolidated statement were generated by individual Capital Group companies in the following amounts (intercompany sales excluded):

data in PLN '000

Company name	Country	revenues from sales between 1 January 2010 and 31 December 2010	revenues from sales between 1 January 2009 and 31 December 2009
LPP S.A.	Poland	1 564 793	1 525 730
LPP Retail Estonia OU	Estonia	31 119	34 171
LPP Retail Latvia Ltd	Latvia	21 638	26 252
LPP Retail Czech Republic s.r.o.*	Czech Republic	85 922	102 139
LPP Hungary Kft.	Hungary	16 883	20 722
UAB "LPP" **	Lithuania	38 046	40 796
LPP Ukraina AT	Ukraine	41 195	28 174
ZAO "Re Trading"***	Russia	237 311	187 731
LPP Fashion Distributor SRL	Romania	21 993	22 778
Artman Slovakia	Slovakia	11 617.31	11 806
LPP Retail Bulgaria Ltd.	Bulgaria	8 841.52	2 797
Total:		**2 079 358**	**2 003 095**

*total revenues of 2 companies in the Czech Republic: LPP Retail Czech Republic s.r.o. and Artman Mode s.r.o. (for 2010 and 2009)
** total revenues of 2 companies in Lithuania: UAB LPP and UAB House Plius (for 2009)
*** total revenues of 3 companies in Russia: ZAO RE Trading, Es Style Russia, Fashion Point Russia (for 2010 and 2009)

Export sales to entities other than Capital Group companies were run by LPP SA and totalled PLN 52 525 thousand, i.e. 2.53% of total revenues. Presented below are the main directions of export sales of the Capital Group.

Country	2010		2009	
	export amount in PLN '000	share in export in %	export amount in PLN '000	share in export in %
Slovakia	28 023	53.35%	27 325	63.71%
Russia	16 797	31.98%	9 193	21.44%
Ukraine	3 650	6.95%	3 223	7.52%
Belarus	2 153	4.10%	1 023	2.39%
Other	1 902	3.62%	2 123	4.95%
Total	**52 525**	**100.00%**	**42 887**	**100.00%**

Dependence of the Issuer's Capital Group on customers

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

Dependence of the Issuer's Capital Group on suppliers

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

Companies producing goods for LPP SA are mainly based in China. Purchases made in China represented 75% of the total purchase volume. Additionally, the Company purchased goods from Polish (almost 3%) and other European (about 2%) and Asian (about 20%) producers. Purchase volume did not exceed 10% for any of the suppliers.

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

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

Key achievements of LPP SA Capital Group in 2010:

1) Revenues from sales of LPP S.A. Capital Group amounted to PLN 2 079 million and were up by 3.81% vs. the previous year.

2) In 2009 LPP SA Capital Group generated net profit of about PLN 139 million – it increased by 32.92% in comparison with 2009 (about PLN 105 million)

3) In 2010 the total selling area in brand stores was up by approx. 34 thousand square meters (i.e. approx. 12%). The total retail selling area in the entire LPP SA Capital Group amounted to approx. 323 thousand sq. m, including approx. 101 thousand sq. m outside Poland.

	2010		2009		Change in the area
network	Area (thousand m2)	Quantity (pcs)	Area (thousand m2)	Quantity (pcs)	%
RESERVED	198.4	289	176	261	12.7%
CROPP	56.1	250	50.1	229	12.0%
HOUSE	48.2	216	43.5	200	10.8%
MOHITO	10.1	56	9.4	53	7.4%
ESOTIQ	7.1	101	7.0	91	1.4%
OUTLET	2.7	9	2.2	7	22.7%
Total	**322.6**	**921**	**288.2**	**841**	**11.9%**

Results generated by LPP SA Capital Group in 2010 depended primarily on the performance of three retail sales networks, Reserved, Cropp and House, with the major part of revenues and profits generated by Reserved stores.

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

	2010	2009	Change
specification	(in PLN '000)	(in PLN '000)	%
net revenues from sales	2 079 358	2 003 095	3.81%
profit from sales before tax	1 133 214	1 057 872	7.12%
profit from sales	206 513	195 329	5.73%
operating profit	200 687	181 278	10.71%
profit from ordinary activities	182 489	139 251	31.05%
net profit	139 083	104 634	32.92%
shareholders' equity	736 546	685 589	7.43%
liabilities	692 474	676 014	2.43%
long term liabilities	281 231	347 725	-19.12%
short-term liabilities:	411 243	328 289	25.27%
- bank credits	86 637	76 472	13.29%
- to suppliers	312 700	225 329	38.77%
fixed assets	712 574	739 993	-3.71%
current assets	716 446	621 610	15.26%
inventories	424 437	322 756	31.50%
short-term receivables	119 246	93 426	27.64%

The increase in sales revenues by 3.81% was achieved mainly through the increase in export and other sales (sales in the Mohito network, wholesale, sale of services).
Gross profit margin reached 54.50% and was higher than in the previous year (52.81%) by 1.69 percentage points.
Profit on sales increased by 5.73%.
Operating profit amounted to PLN 200 687 thousand (increase by 10.71% compared with 2009) and the operating profit margin amounted to 9.65% (in previous year: PLN 181 278 thousand and 9.05%, respectively).

Profit on ordinary activities was higher in comparison to the previous year by 31.05% and amounted to PLN 182 489 thousand. Significant impact on the increase in the profit on ordinary activities compared to 2009 was the more favourable exchange rate (change by PLN 19,557 thousand)
Net profit generated in 2010 amounted to PLN 139 083 thousand and, compared with the previous year (PLN 104 634 thousand), increased by 32.92%. The resulting net profit margin amounted to 6.69% (in 2009 it was 5.22%).
Shareholder's equity of LPP S.A. was up by 7.43% in 2010. It was mainly caused by the transfer of generated profit to equity.
The balance of long-term liabilities decreased by 19.12% due to the repayments of subsequent investment credit instalments.
The balance of short-term liabilities increased by 25.27% compared with 2009.
At the end of 2010, liabilities related to bank credits were higher by 13.29% compared with the end of 2009, and short-term trade liabilities decreased by 38.77%.
In the analysed period, the value of fixed assets decreased by 3.71% as a result of a reduction in investments in subsidiaries and depreciation value.

Current assets increased by 15.26% compared with the end of 2009. This was caused mainly by an increase in inventories of merchandise resulting from the development of sales network.

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

1. Profitability ratios

In 2010, all profitability ratios were slightly higher than in 2009.

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;

	2010	**2009**	**change**
Volume	**%**	**%**	p.p.
gross profit margin on sales	54.50%	52.81%	1.69%
operating profit margin	9.65%	9.05%	0.60%
net profit margin	6.69%	5.22%	1.47%
return on assets (ROA)	9.97%	7.68%	2.29%
return on equity (ROE)	19.56%	16.73%	2.83%

2. Liquidity ratios

Current liquidity ratio decreased compared with the previous year by 7.94% and amounted to

1.74.
Quick ratio also decreased compared with the previous year and reached 0.71. These changes were caused by the decrease of the Company's short-term debt.

Inventories turnover has decreased from 150 to 144 days, which is the result of the continuation of actions taken by the Company to reduce inventories held in the logistic centre. Receivables turnover ratio improved by 11.76% compared to 2009 and amounted to 15 days Liabilities turnover ratio deteriorated reaching 103 - by 13.84% more than in 2009.

Liquidity ratios have been calculated as follows:

a) current ratio – current assets divided by the carrying amount of short-term liabilities;
b) quick ratio – current assets less inventory divided by the carrying amount of short-term liabilities;
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 liabilities turnover ratio (days) – average trade liabilities divided by costs of goods and products sold and multiplied by the number of days in a given period;

	2010	**2009**	**change**
Volume			**%**
current liquidity ratio	1.74	1.89	-7.94%
quick liquidity ratio	0.71	0.91	-21.98%
inventory turnover (days in inventory)	144	150	-4.00%
days in receivables	15	17	-11.76%
days in trade payables	104	90	15.56%

3. Asset Management Ratios

Fixed assets to equity ratio improved by 10.71% compared to last year.
Total debt and long-term debt ratios decreased compared with 2009.
Short-term debt ratio increased compared to last year.

The 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 ratio – short-term debt divided by the balance sheet total;
d) long-term debt ratio – long-term debt divided by the balance sheet total;

	2010	**2009**	**change**
value	**%**	**%**	**p.p.**
fixed assets to equity ratio	103.36%	92.65%	10.71%
total debt ratio	48.46%	49.65%	-1.19%
short-term debt ratio	28.78%	24.11%	4.67%
long-term debt ratio	19.68%	25.54%	-5.86%

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

In 2010 the Capital Group concluded the following material contracts:

- 76 lease agreements with distributors of retail premises. These agreements concern the premises where clothing under Reserved, Cropp, House, Mohito brands and Esotiq underwear are sold.
- Annexes to the credit agreements are already in operation. Information on these contracts has been published in current reports (RB 18/2010, RB 23/2010, RB 35/2010, RB 38/2010). A list of credit agreements is presented in Notes to the financial statement (section 14.7.4).
- Guarantees for the Fulfilment of Customs Obligation
- Insurance contracts:

  •Property insurance policy

  •Civil liability insurance Policy

  •Electronic Equipment Insurance (EEI)

  •Construction All Risk Insurance (CAR)

  •Machinery Insurance Policy

  •Motor vehicle insurance policy
- The Investment Agreement under which the company Esotiq&Henderson, an entity independent of the Issuer, will conduct the business of selling products of Esotiq and Henderson brands which starting from 1 January 2011 will not be sold by the Issuer. In order to implement this agreement, the company Esotiq&Henderson purchased from LPP S.A. all the products under the aforementioned brands owned on 31 December 2010 by the LPP SA, as well as Esotiq outlets equipment and other equipment used until now by the Issuer to organize the sale of products under Esotiq and Henderson brands. The implementation of the agreement did not affect significantly the performance of LPP SA.

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

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

In 2010 there was no substantial change in organizational and capital relations of LPP Capita Group.
Investments made by LPP Capital Group are related mainly to the affiliated entities. The total value of shares in non-consolidated affiliated entities amounts to PLN 212 thousand. In addition, there are loans granted by to the LPP Capital Group to foreign entities, a total of PLN 341 thousand.

Financial surplus was temporarily placed in the units of debt securities funds with a defensive nature (PLN 53 064 thousand as the balance sheet date), and commercial bonds, listed on the market (PLN 16 430 thousand as at the balance sheet date).

Details concerning capital expenditure of the LPP Capital Group are described in the notes to the statement in section 14.7.

6. Description of significant transactions concluded by the Issuer or its subsidiary with affiliated entities not at arm's length, together with amounts and information specifying the nature of these transactions.

All transactions in the reporting period concluded by the Issuer with affiliated entities were concluded at arm's length.

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

Information on credits incurred as at 31 December 2010 and their maturity is presented in notes to the financial statements in section 14.7.

In 2010 LPP SA Capital Group used bank guarantees to secure the payment of rent for leased retail premises where brand stores are located. LPP SA Capital Group requested for bank guarantees to secure retail lease agreements where LPP SA or its affiliated entities are lessees.
As at 30 December 2010 the total value of bank guarantees issued to the order of and on the responsibility of LPP SA amounted to PLN 96 957 thousand, including:

a) the value of guarantees issued to secure the agreements concluded by LPP SA amounted to PLN 57 117 thousand
b) the value of guarantees issued to secure the agreements concluded by affiliated entities included in the consolidation amounted to PLN 37 123 thousand
c) the value of guarantees issued to secure the agreements concluded by affiliated entities not included in the consolidation amounted to PLN 2 457 thousand
d) the value of guarantees issued to secure the agreements for office space lease concluded by LPP SA amounted to PLN 260 thousand

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

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

Information on loans granted by LPP SA Capital Group is described in the Notes to the financial statements (section 14.7).

9. Information on loans granted, specifying their maturity as well as guarantees and sureties granted by the Issuer, in particular loans, sureties and guarantees granted to the Issuer’s affiliated entities.

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

Description	**Amount in PLN ‘000**
Line for Paylink Citibank-Handlowy cards, guaranteeing payables of the company's customers in respect of the bank	5 740
Guarantee for a promissory note issued to Orlen for one entity	22
Guarantee for the daughter company Re Trading under the commercial contract	787
Guarantee for the daughter company LPP Ukraine concerning premisses lease	140

Guarantee for the daughter company LPP Hungary Kft	2 398
Guarantee for the daughter company LPP Retail Estonia	436
Guarantee for the daughter company LPP Fashion Distribuitor (Romania)	1 012
Guarantee for the company Fashion Point- Russia	824
Guarantee for the company LPP Czech Retail	1 058
Guarantee for the daughter company Artman S.R.O.	612
Guarantee for the company LPP Retail Estonia	99
Guarantee for the company LPP Retail Bulgaria	640

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

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

10. Appropriation of receipts from share issue.

In 2010 the Company did not conduct any issue of shares.

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

The forecast of financial results was not published.

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

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

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

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

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

In 2010, the economic situation on the market remained disadvantageous. It is true that sales revenues generated in individual retail chains were no lower than in the previous year, yet it was not satisfactory. The increase in the surface of the retail chains did not result in the increase in sales, which means lower revenues from the statistical meter of the retail space. Assuming that the revenue from the statistical meter of the retail space reached in 2009 would be also achieved in 2010 would mean an increase in the sales of retail chains about PLN 340 billion and would impact considerably the generated profit at every level.

15. Description of external and internal factors that are vital for the Issuer's company's development and description of the Issuer's business development perspectives, at least 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 SA Capital Group determining its future market position are as follows:
a) developing the network of brand stores in Poland and Central and Eastern Europe,
b) building strong clothing brands (Reserved, Cropp, House, Mohito, Esotiq),
c) increasing the business profitability and effectiveness

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

Internal factors

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

LPP SA Capital Group is focused on designing and distribution of clothing as well as building its brand while outsourcing many activities to third parties. GK LPP SA does not have its own production capacity, which significantly reduces fixed costs. Production of all the garments is commissioned to contractors mainly from the Far East. As a result, the objective of all investments is to increase the Group's trading potential, maintain its competitive edge on the market, develop its own distribution network, create good image of LPP SA Capital Group on the clothing market, gain new customers and ensure their loyalty.
The development strategy for leading brand - Reserved, assumes taking action to improve the image of the uniqueness and prestige of this brand in the eyes of customers, leaving it still in the mass clothing segment.

b) The Group's market position

The volume of revenues from sales generated by LPP SA Capital Group confirms its good position in the domestic market. Despite its relatively low (5-6%) market share, the Capital Group is also one of the most important entities in the domestic market.

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

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

d) Logistics.

The applied logistic model consisting in using specialized technology in its own logistics centre, while commissioning to specialized transportation companies the transport of goods from suppliers to the logistics centre and from the logistics centre to outlets, allows for a more effective implementation of processes in this area.

e) Actions aimed at reducing costs.

To ensure efficiency and productivity of the Capital Group at a high level, actions have been taken to reduce the incurred costs whose low level is of particular importance in the period of achieving relatively small sales revenues - during a market downturn. After years of concentration on growth and development, the Company has adopted the strategy of profitability increase at the lower pace of the growth of commercial space achieved in recent years.

External factors

a) The pace of economic growth in Poland and in countries where the outlets of the LPP SA Capital Group operate

Adverse changes in the global economy have also affected the market situation in the region of the LPP Capital Group operation. Starting from the first quarter of 2009, for seven consecutive quarters, the declines in sales in comparable outlets were reported. This negative tendency slowed down in the second half of 2010 and in the fourth quarter an increase in revenues in comparable stores occurred. The course of the described changes indicated that in the coming quarters we can expect an improvement of the situation and a clear increase in sales.

b) Foreign exchange rates

The main accounting currency for the majority of goods purchase transactions is USD. A small proportion of the settlements is conducted in EUR.

The majority of receipts from sales is obtained in PLN. Instability of the Polish currency against USD and Euro constitutes risk, the faster the changes (PLN/USD), the bigger the risk. Given the specific type of the Company’s business, it is possible to partially transfer the risk of increase in USD exchange rate to end customers, as the product selling price is calculated just before the product is introduced to the market.
In addition to foreign exchange risk concerning the accounting currency used for the purchase of commercial goods, there is also the risk associated with the fact that the commercial space rents are settled in EUR.
Information on foreign exchange risk is presented in section 10 of the Note.

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

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

d) The increase in cotton prices

An increase in cotton prices visible for a few months, whose dynamics increased in the second half of 2010, affects the cost of clothing production. The price for cotton has increased about twice since August 2010. Due to the largest share of the price of this raw material in the final price of the product in case of the simplest pieces of clothing (e.g. T-shirts), the prices of these products have increased by about 9%. It means that the average increase in the purchase prices of contracted collections does not exceed a few percent. Observation of cotton prices on global markets allows us to conclude that in the perspective of coming quarters there will be no increase in the price of this raw material. As clothing prices eventually depend also on the PLN/USD exchange rate (payment for the purchased goods is made in USD), due to the lack of anticipated factors weakening PLN against USD, it may be assumed that eventually the purchase prices of clothes will reach the levels advantageous for the Company.

Perspectives for the development of the Issuer's business

Long-term development strategy of LPP SA Capital Group assumes strengthening the existing market position, further expansion both in the domestic and foreign markets (in the nearest future only in the countries where subsidiaries already operate), as well as increased profitability and efficiency.
At the end of 2010, the LPP Capital Group had a chain of 921 stores (Reserved, Cropp, House, Mohito, Esotiq) and 9 outlets with the total retail area of approx. 322.6 thousand sq. m
Plans for 2011 assume the creation of new branches which will consequently lead to an increase in the total area of the retail surface in Poland and abroad by approx. 8% (opened branches will increase the area by 10%, however, due to the discontinuance of operating Esotiq stores, the actual growth will be smaller).

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

In 2010 the LPP S.A. Capital Group did not buy-back any treasury shares.

17. Information on key achievements in research & development area

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

18. Information on financial instruments related to:

a) the risk of: prices change, credit, serious disruption of cash flows and financial liquidity loss, to which the entity is exposed,

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

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

The Company also identified embedded derivatives connected with:

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

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

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

1) currency risk – discussed in section 15 above as an external risk factor,
2) interest rate risk – according to the Management Board opinion, based on the analysis of changes in interest rates in previous periods, any potential increase of this parameter determining the amount of credits granted and issued bonds cannot have any significant impact on financial results,
3) credit risk – this risk is connected primarily with loans granted to foreign subsidiaries. These loans were granted and used to develop the sales network abroad. The Management Board is of the opinion that there is no threat of any loss of these amounts, although their repayment may be delayed in some cases.

LPP SA Capital Group does not hedge these risks.

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

In 2010 there were no major changes in the management of the Issuer's business and its Capital Croup.

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

As at 31.12.2010 members of the Issuer's Management and Supervisory Board held the following number of shares of the Company:

Shareholder	Number of held shares (pieces)	Number of votes at the General Meeting of Shareholders	Nominal value of shares
President of the Management Board	175 000	875 000	350 000
Vice-President of the Management Board	2 664	2 664	5 328
Vice-President of the Management Board	17	17	34
Vice-President of the Management Board	137	137	274
Chairman of the Supervisory Board	175 000	875 000	350 000

Members of the Issuer's Management and Supervisory Board hold no shares in the Issuer's affiliated companies.

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

In 2009, the LPP S.A. Capital Group issued series A bonds convertible into series K shares. As a result, 80,846 bonds were included in the offer, for the amount of PLN 129 million. Issuer's shares purchase by bonds into shares conversion may cause changes in the structure of share ownership in terms of number of shares held by current shareholders and bondholders. The conversion may take place in the semi-annual periods from the issue date of the convertible bonds, i.e., from 23 July 2009.
The first conversion of shares into bonds took place on 24 January 2011. As a result of conversion instructions 11 288 bonds were converted into 11 288 K series shares.
If all other issued bonds were converted, the total number of shares would amount to 1,831,123 and the number of votes at LPP SA General Meeting of Shareholders to 3,231,123.

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

Not applicable.

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

None.

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

These amounts are presented in section 14.23.1 of the Notes to the financial statements.

25. Information on the entity entitled to audit financial statements.

On 19 April 2010, the LPP S.A. concluded with Grant Thornton Frąckowiak Sp. z o.o. an agreement on, respectively:

1) auditing the financial statements for the period from 1 January 2010 to 31 December 2010, giving opinion on it and preparing the audit report.
2) auditing the Capital Group's consolidated financial statements for the period from 1 January 2010 to 31 December 2010, giving opinion on it and preparing the audit report.
3) auditing the interim financial statements for the period from 1 January 2010 to 30 June 2010 and preparing the audit report.
4) auditing the consolidated interim financial statements for the period from 1 January 2010 to 30 June 2010 and preparing the audit report.
5) auditing the financial statements for the period from 1 January 2011 to 31 December 2011, giving opinion on it and preparing the audit report.
6) auditing the Capital Group's consolidated financial statements for the period from 1 January 2011 to 31 December 2011, giving opinion on it and preparing the audit report.

7) auditing the interim financial statements for the period from 1 January 2011 to 30 June 2011 and preparing the audit report.
8) auditing the consolidated interim financial statements for the period from 1 January 2011 to 30 June 2011 and preparing the audit report.

The total value of the net remuneration due and resulting from the aforementioned agreements amounted to PLN 280 thousand plus VAT.
For the financial year, the amount for auditing and reviewing financial statements of the company and the capital group was PLN 140 thousand plus VAT.

The total amount of remunerations for the services of Grant Thornton Frąckowiak Sp. z o.o regarding the financial year 2009 was PLN 228.8 thousand plus VAT. This amount consisted of remuneration for the following:

a) auditing annual (for 2009) individual and consolidated financial statement of the LPP S.A. and reviewing half-year statements (2009) – PLN 154 thousand
b) auditing the statements of the company Artman S.A. acquired by the LPP S.A. – PLN 50 thousand,
c) tax consultations – PLN 22 thousand
d) verification of documents regarding the merger of LPP S.A. and Artman S.A. – PLN 2.8 thousand

26. Corporate Governance Statement.

a) The Management Board of LPP S.A. declares that the Company and its authorities complied with the principles of Best Practices for WSE Listed Companies as described in parts II, III and IV, wherein:

a. the requirement of section 10 part IV, which regards the necessity to provide shareholders with the possibility to participate in the general meeting by means of electronic communication, was not observed
b. the principle describing the necessity to publish on the website information on the content of the rule applicable in the company regarding changing the entity authorized to audit financial statements or information on the lack of such rule was breached. Relevant information is currently available on the website.

Information on the principles of Corporate Governance is available on the Company's website www.lpp.com.pl (www.inwestor.lpp.com.pl)

The Company shall not apply Corporate Governance principles beyond the requirements of national law.

The Company and its authorities also followed the principles of Best Practice for WSE Listed Companies described in part I, except for:

as regards section I.1. The general meeting was not broadcast over the Internet or registered, and it was not published on the website,

as regards section I.5. The applicable principles of remuneration do not comply with all the requirements described in the recommendations of the European Commission of 14 December 2004 and Recommendations of 30 April 2009, as regards section I.9. There are no formal principles for membership in the authorities of the company in relation to gender or schemes to promote balanced participation of women and men in performing the functions of management and supervision in LPP S.A. Currently, all members of the Company's authorities are men.

b) Description of the main features of the Company's internal control systems and risk management in relation to the process of preparing financial statements and consolidated financial statements.

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

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

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

- control activities taken at all levels and in all cells of the Company, based on procedures (permits, authorizations, verifications, reconciliation, review of operational activities, distribution of duties), that help ensure compliance and guidelines for management of the Company, and at the same time enable to identify and take the necessary actions to minimize errors and risks for the Company,
- Workflow Guide - proper records and documentation circulation control system (to ensure compliance of the account records with accounting evidence),
- suitably qualified staff carrying out inspections,
- segregation of duties excluding possibility of executing by one employee an action associated with the execution and documenting a business transaction from beginning to end,
- inventory manual, specifying the rules for the use, storage and inventory of assets,
- principles for balance sheet amortisation of intangible and tangible fixed assets,
- information system - accounts of the Company are conducted with help of the computerized Integrated Enterprise Management System AWEK at the Company's headquarters, which provides credibility, reliability and accuracy of the processed information, the access to information resources is limited to AWEK system authorized personnel, only for their performance of duties,
- accounting policy, taking into account the principles of the International Accounting Standards and International Financial Reporting Standards (IAS/IFRS) and related interpretations published in the form of implementing regulations of the European Commission,
- electronic system for documents processing (invoices, elements of employee documentation, commissions to purchase equipment, payment orders, etc.

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

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

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

In LPP SA, semi-annual reviews of the strategy and business plans implementation take place. This is due to the cycles occurring in the clothing trade. After closing the half-year period, senior and middle management, with the help of finance department, review the Company's financial results. Operating performance of the Company, individual business units' or even individual stores', is analysed each month.
Internal control and closely related risk management in relation to financial reporting processes are the subject of current interest to the managing authorities of the Company. In LPP SA, business risk factors analysis is carried out. An important role here also plays the managerial staff that is responsible for monitoring the activities of their departments including identifying and

assessing risks associated with the process of making accurate, reliable and complying with the laws concerning financial statements.

c) **Information on shareholders of the Company holding, directly or indirectly, significant blocks of shares, indicating number of shares held by these entities, their percentage share in the share capital, resulting number of votes and their percentage share in the total number of votes at the general meeting.**

Shareholder	Number of held shares (pieces)	Number of votes at the General Meeting of Shareholders	Share in the total vote at the General Meeting of Shareholders	Interest in share capital
Marek Piechocki	175 000	875 000	27.78%	10.00%
Jerzy Lubianiec	175 000	875 000	27.78%	10.00%
Monistor Limited (Cyprus)	200 728	200 728	6.37%	11.47%
Grangefont Limited, with its registered office in London, UK	350 000	350 000	11.11%	20.00%
Aviva OFE	157 962	157 962	5.01%	9.02%
Other shareholders	691 587	691 587	21.95%	39.51%
TOTAL	1 750 277	3 150 277	100.00%	100,00%

d) **Information on holders of securities that give special control rights and on any restrictions on voting rights, such as restricting the voting rights of holders of a specified proportion or number of votes and the restrictions on transferring ownership rights.**

Shareholders holding shares conferring the right to more than 15% in the General Meeting exercise the right to vote up to 15%, regardless of the number of votes arising from the shares

held. Two shareholders, controlling the Company for many years, Mr Jerzy Lubianiec and Mr Marek Piechocki, hold 175,000 series B preference shares each, and each share carries 5 votes at the General Meeting. In addition, the above-described statutory limitation on voting rights exercise only to 15% of voting rights at the General Meeting, regardless of the number of owned shares, does not concern shares of the above shareholders. The above statute notes give the two shareholders indicated above the dominant position.
Restrictions on transferring the ownership of securities concern registered shares and series I shares.
Sale or mortgage of shares shall be dependent on the approval of the Company. The approval for disposal or pledge of the shares is given by the Supervisory Board in writing, on pain of nullity, within 14 days from the date of the application receipt. If the Company refuses to approve the sale, within 30 days it has to indicate a different buyer and determine the date and place of the payment. If the Company within the above time limit does not indicate another buyer, the shares may be sold without restriction then.
I series shares that were issued to implement the Company's discretionary motivational programme for managerial staff of the Company, may not be disposed of within two years after their taking up.

This restriction is intended to bind the key personnel to the Company by ensuring those people pay associated with the results of the Company.

e) Description of the rules governing the appointment and dismissal of managers and their rights, in particular the right to decide whether to issue or repurchase shares.

The Board consists of two to five members, including the President, and from one to four Vice-Presidents of the Management Board. The number of members is determined by the Supervisory Board.
Members of the Management Board are appointed and dismissed by the Supervisory Board for a term of five years.
Competence and working rules of the LPP SA Management Board are set forth in the following documents:

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

The Management Board deals with all matters that are not in the competence of other bodies of LPP SA.
The Management Board shall not have the right to make decision on the issue or repurchase of shares.

f) Description of rules for amending the articles of association of the issuer.

Any amendment to the Articles of Association require a resolution of the General Meeting.

g) Mode of action of the General Meeting, its powers, the description of shareholders' rights and the way of their execution

Convention of the General Meeting of Shareholders

1) The General Meeting of Shareholders may be convened in ordinary or extraordinary mode.
2) The General Meeting of Shareholders is held in Gdansk, Warsaw or Sopot, at the place designated by the Management Board.
3) Ordinary General Meeting is held annually within six months after the end of trading year.

4) Extraordinary General Meeting shall be convened by the Management Board on its own initiative, at the request of the Supervisory Board and at the written request of shareholders representing one tenth of the equity capital.
5) The fact of convening the General Meeting with the date (day, hour) and place is announced by the Management Board on the Company's website and in the manner provided for conveying current information and in accordance with the provisions on public offering and terms and conditions of introducing financial instruments to an organised trading system and on public limited companies.

Competencies of the General Meeting

1) Examination and approval of financial statements and reports of the Management Board on the activity of LPP SA for a last year.
2) Taking all decisions relating to claims for damages suffered during the establishment of LPP SA or its management or supervision.
3) Adopting a resolution on the distribution of profits or covering losses.
4) Granting to the members of LPP SA acknowledgement of the fulfilment of duties.
5) Adopting a resolution on the issue of bonds, including convertible bonds.
6) Amendments to the Articles of Association.
7) Adopting resolutions concerning a merger, conversion of LPP SA, its dissolution and liquidation.
8) Adoption of resolutions concerning the sale and lease of the company and establishing beneficial ownership.
9) Examination and deciding on proposals submitted by the Supervisory Board.
10) Deciding on other matters reserved to the competence of the General Meeting in the Code of Commercial Companies and the provisions of the Company's Articles of Association.

General Meeting Convention

1) The General Meeting is opened by the Chairman of the Supervisory Board or a person authorised by him and they hold the elections of the President of the General Meeting.
2) The person opening the General Meeting brings to the immediate election of the President of the General Meeting who directs the works of the GM and ensures efficient and proper conduct of the session.
3) The General Meeting shall adopt resolutions only on matters included in the agenda.
4) Draft resolutions proposed for adoption by the General Meeting and other relevant materials are presented to the shareholders together with the reasons and the opinion of the Supervisory Board.
5) Course of the Meeting is recorded by a notary.

Voting

1) Voting at the General Meeting shall be open. Secret voting is administered at the election of authorities and requests to dismiss the governing authorities or liquidators of the Company, or to make them accountable, as well as in case of personal matters. In addition, secret voting is held on the request of any shareholder or their representative.
2) The General Meeting may choose a three-person returning committee, whose duties shall include ensuring the proper conduct of each voting, supervision of computer service (in the case of voting with the use of electronic technology) and checking and announcing the results.
3) Each share in the General Assembly is the right to one vote. In the case of a B Series preference share, one share is the right to five votes at GM.
4) The President announces the voting results, which are then brought into the minutes of the session.

h) Membership and changes that occurred during the financial year and the description of the actions of managing, supervisory or administrative bodies and their committees.

LPP SA Management Board

Composition of the Management Board as of 31 December 2010:
- Marek Piechocki – President of the Management Board
- Dariusz Pachla – Vice-President of the Management Board
- Piotr Dyka- Vice-President of the Management Board
- Hubert Komorowski - Vice-President of the Management Board
- Jacek Kujawa- Vice-President of the Management Board

In the last financial year there were no changes in the composition of the Management Board. Competence and working rules of the LPP SA Management Board are set forth in the following documents:
- LPP SA Articles of Association (available on the Company's website)
- Management Board Regulations (available on the Company's website)
- Commercial Code

Supervisory Board

Composition of the Supervisory Board as of 31 December 2010 was as follows:
- 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

In the last financial year there were no changes in the composition of the Supervisory Board.

Competence and working rules of the LPP SA Supervisory Board are set forth in the following documents
- LPP SA Articles of Association (available on the Company's website)
- Supervisory Board Regulations (available on the Company's website)
- Commercial Code

Marek Piechocki

Chairman of the Board

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

STATEMENT OF THE MANAGEMENT BOARD OF LPP SA

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

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

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

- the entity authorised to audit financial statements which conducted an audit of the annual consolidated financial statements was appointed in line with applicable legal provisions currently in effect. This entity and statutory auditors who performed audits satisfied all requirements to prepare an impartial and independent audit report, pursuant to the applicable provisions of the Polish law.

Marek Piechocki

President of the Management Board

Dariusz Pachla Hubert Komorowski Piotr Dyka Jacek Kujawa

Vice-President of the Management Board Vice-President of the Management Board Vice-President of the Management Board Vice-President of the Management Board

Gdańsk, 12 April 2011