

**REPORT SUPPLEMENTING THE CERTIFIED
AUDITOR'S OPINION ON THE CONSOLIDATED
FINANCIAL STATEMENT FOR FY06**

LPP S.A. CAPITAL GROUP

POZNAŃ, 24 APRIL 2007

1. ABOUT THE PARENT COMPANY

LPP Spółka Akcyjna is the Parent Company in the Capital Group. The Parent Company was established on 7 December 1989. Life of the Parent Company shall be unlimited. Its registered office is in Gdańsk, ul. Łąkowa 39/44.

Core business of the Parent Company is as follows:

- wholesale of clothing and footwear,
- retail sale of clothing.

Core businesses of subsidiaries are connected with core business of the Parent Company.

On 14 February 2001, the Parent Company was registered in the Register of Entrepreneurs of the National Court Register kept by the Local Court in Gdańsk, VII Commercial Division of the National Court Register, entry no. KRS 0000000778.

The Parent Company was assigned the Tax Identification Number NIP 583-10-14-898 and statistical number REGON 190852164.

The Parent Company's share capital totalled PLN 3.407k as at year-end, i.e. on 31 December 2006. The Capital Group's equity as at this date totalled PLN 273,285k.

As presented in Note 4 to the consolidated financial statement drawn up as at 31 December 2006, the ownership structure of the Parent Company's share capital was as follows:

Shareholder	Number of shares	Number of votes	Nominal value of shares	Share in share capital
Marek Piechocki	281 876	981 876	563 752	16.55%
Jerzy Lubianiec	246 338	946 338	492 676	14.46%
Grangefont Limited	350 000	350 000	700 000	20.55%
OFE Commercial Union S.A.	214 954	214 954	429 908	12.62%
Other	610 332	610 332	1 220 664	35.82%
Total	1 703 500	3 103 500	3 407 000	100%

According to the information held by the Company as at 24 April 2007, the following significant changes in share ownership structure occurred from 1 January 2006 to 31 December 2006 and after the balance sheet date until the date of publication of this report:

- sale of 30,000 shares of LPP S.A. by Mr Jerzy Lubianiec,
- acquisition of LPP S.A. shares by OFE Commercial Union S.A., in the amount which requires notification of the market (i.e. over 5% of the total vote at the AGM); the total number of shares as at the balance sheet date is presented in the table above.

As at 24 April 2007, the Management Board of the Parent Company included:

- Marek Piechocki – President of the Management Board,
- Alicja Milińska – Vice President of the Management Board,
- Stanisław Dreliszak – Vice President of the Management Board,
- Dariusz Pachla – Vice President of the Management Board,
- Aleksander Moroz – Vice President of the Management Board.

In the period from 1 January 2006 to 24 April 2007, composition of the Company's Management Board changed as follows:

- On 29 June 2006, Mr Aleksander Moroz was appointed Vice President of the Management Board by the Supervisory Board.

2. COMPOSITION OF THE CAPITAL GROUP

As at 31 December 2006, LPP S.A. Capital Group included the following subsidiaries:

Name of the company	Consolidation method	Opinion on the financial statement	Auditor of the financial statement	Balance sheet date as at which the statement was drawn up
LPP Retail Estonia OU	fully consolidated	unqualified	HLB Expertus Audit, Tallinn	31.12.2006
LPP Czech Republic s.r.o.	fully consolidated	unqualified	BDO Prima Audit s.r.o., Praha	31.12.2006
LPP Hungary Kft	fully consolidated.	unqualified, with one explanatory note	HLB Klient Plusz Kft, Budapest	31.12.2006
LPP Retail Latvia Ltd	fully consolidated	unqualified	Rodl & Partner SIA	31.12.2006
UAB LPP	fully consolidated	unqualified, with one explanatory note	UAB Balanso Auditas, Vilnius	31.12.2006
LPP Ukraina	fully consolidated	unqualified	Audit Company International Finance Alla Ejsmont	31.12.2006
Re Trading Zamknięta Spółka Akcyjna	fully consolidated	unqualified, with explanatory notes	Expert Audit Limited Liability Company	31.12.2006
G&M Sp. z o.o.	non-consolidated	not audited	not applicable	31.12.2006
M&G Sp. z o.o.	non-consolidated	not audited	not applicable	31-12.2006
AKME Sp. z o.o.	non-consolidated	not audited	not applicable	31.12.2006
TORA Sp. z o.o.	non-consolidated	not audited	not applicable	31.12.2006

Name of the company	Consolidation method	Opinion on the financial statement	Auditor of the financial statement	Balance sheet date as at which the statement was drawn up
P&G Sp. z o.o.	non-consolidated	not audited	not applicable	31.12.2006
SL&DP Sp. z o.o.	non-consolidated	not audited	not applicable	31.12.2006
DP&SL Sp. z o.o.	non-consolidated	not audited	not applicable	31.12.2006
IL&DL Sp. z o.o.	non-consolidated	not audited	not applicable	31.12.2006
PL&GM Sp. z o.o.	non-consolidated	not audited	not applicable	31.12.2006
GM&PL Sp. z o.o.	non-consolidated	not audited	not applicable	31.12.2006
AMA Sp. z o.o.	non-consolidated	not audited	not applicable	31.12.2006
LIMA Sp. z o.o.	non-consolidated	not audited	not applicable	31.12.2006
LUMA Sp. z o.o.	non-consolidated	not audited	not applicable	31.12.2006
KAMA Sp. z o.o.	non-consolidated	not audited	not applicable	31.12.2006
KUMA Sp. z o.o.	non-consolidated	not audited	not applicable	31.12.2006
AMUL Sp. z o.o.	non-consolidated	not audited	not applicable	31.12.2006
AMUK Sp. z o.o.	non-consolidated	not audited	not applicable	31.12.2006
AMUR Sp. z o.o.	non-consolidated	not audited	not applicable	31.12.2006
MM&MR Sp. z o.o.	non-consolidated	not audited	not applicable	31.12.2006

Compared to the previous year, there were no changes as regards consolidated companies. Financial statements of some of the above companies were not consolidated as data presented therein was immaterial for the true and fair presentation of the consolidated financial statement. The share of the total amount of assets and revenues of non-consolidated subsidiaries in the corresponding amounts of the consolidated financial statement is presented in Note 3 of the Introduction to the consolidated financial statement.

3. CONSOLIDATED FINANCIAL STATEMENT FOR THE PREVIOUS YEAR

Consolidated financial statement of the Capital Group drawn up for the financial year ended 31 December 2005 (previous financial year) was audited by certified auditor Jan Letkiewicz, license no. 9530/7106, acting for and on behalf of HLB Frąckowiak i Wspólnicy Sp. z o.o. The opinion on this statement issued by the certified auditor was unqualified (without reservations), with the following explanatory notes:

- The attached consolidated financial statement for the financial year ended 31 December 2005 is the first complete consolidated financial statement drawn up the Capital Group as per the International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS). The Management Board of the Parent Company provided comparative data for the previous financial year, disclosed in this financial statement for the first time ever. In Note 13, the Management Board of the Parent Company presented reconciliation of equity previously disclosed as per the accounting principles adopted in Poland with equity disclosed as per IFRS as at the date of transition to IFRS, as well as reconciliation of closing balance equity for the last period and financial result for this period presented in the last annual consolidated financial statement drawn up in line with accounting principles previously in effect in Poland.
- Until the end of 1996, the Parent Company operated in the hyperinflationary economy. As at the date of transition to IFRS, i.e. as at 1 January 2004, as required in IAS 29.24, the Company performed conversion of its equity (with the exception of retained profit brought forward from previous years and any surplus from the subsequent measurement of assets) based on a general price index, starting from dates when these funds were contributed or otherwise established by 31 December 1996. At the same time, results of this equity conversion based on inflation indices were disclosed under retained earnings. This conversion has no impact on the total amount of equity as at the date of transition to IFRS and subsequent balance sheet dates. In Note 14.8 to the consolidated financial statement of LPP S.A. Capital Group, the Management Board of the Parent Company presented a detailed description of the hyperinflationary restatement and its impact on the structure of equity.
- The consolidated financial statement of the Capital Group contains financial data of 7 subsidiaries, whose individual financial statements were audited by certified auditors acting for and on behalf of other entities authorised to audit financial statements. Cumulative amount of balance sheet totals (before elimination of non-consolidated items) of these subsidiaries represents 15.7% of the balance sheet total of the Capital Group's consolidated financial statement without any elimination of non-consolidated items.

Consolidated financial statement of the Capital Group drawn up for the year ended 31 December 2005 was approved by the General Meeting of Shareholders of the Parent Company held on 29 June 2006.

Consolidated financial statement of the Capital Group drawn up for the year ended 31 December 2005 (previous financial year) along with the certified auditor's opinion, resolution of the General Meeting of Shareholders approving the consolidated financial statement, as well as report on the Capital Group's operations, were submitted on 12 July 2006 to the National Court Register.

Introduction to the consolidated financial statement, consolidated balance sheet drawn up as at 31 December 2005, consolidated profit and loss account, statement of changes in consolidated equity, and consolidated cash flow statement for the financial year ended 31 December 2005 (previous financial year), along with the certified auditor's opinion and resolution of the General Meeting of Shareholders approving the consolidated financial statement were submitted for publication in *Monitor Polski B* on 10 July 2006.

4. ENTITY ENTITLED TO AUDIT THE FINANCIAL STATEMENT AND CERTIFIED AUDITOR

HLB Frackowiak i Wspólnicy Sp. z o.o. with its registered office in Poznań, pl. Wiosny Ludów 2, is the certified auditor entitled to audit financial statements, registered on the list kept by the National Council of Certified Auditors in Poland, entry no 238.

On behalf of HLB Frackowiak i Wspólnicy Sp. z o.o., the audit of the Capital Group's financial statement was supervised by Mr. Jan Letkiewicz, certified auditor no. 9530/7106.

The company HLB Frackowiak i Wspólnicy Sp. z o.o. was selected on 16 February 2006 by the Supervisory Board of LPP S.A. to audit the consolidated financial statement of the Capital Group drawn up for the financial years ending 31 December 2006 and 31 December 2007. Audit of this consolidated financial statement was conducted based on the contract concluded on 27 June 2006 with the Management Board of the Parent Company.

5. SCOPE AND DATE OF THE AUDIT

The purpose of this audit was to prepare a written opinion and a report on whether the consolidated financial statement drawn up for the financial year ended 31 December 2006 presents a true and fair view of the financial standing, assets, and financial result of the Capital Group in all its material aspects, in compliance with the accounting principles (policy) set forth in the International Accounting Standards, International Financial Reporting Standards, and related interpretations published in the form of Regulations of the European Commission, and in matters not covered by these Standards - as per the Accounting Act and its implementing provisions.

When auditing the consolidated financial statement and consolidation documents item by item, we used financial auditing tests. Based on results of these tests, we formulated our conclusions as to the accuracy of audited items.

Our audit did not cover matters which had no influence on the audited consolidated financial statement.

Our audit of the consolidated financial statement of the Capital Group drawn up for the financial year ended 31 December 2006 was conducted between 16 April 2007 and 24 April 2007.

6. DECLARATION OF INDEPENDENCE

HLB Frąckowiak i Wspólnicy Sp. z o.o. and the certified auditor supervising the audit comply with all requirements specified in Art. 66 Section 2 and 3 of the Accounting Act, as required to express an impartial and independent opinion on the audited consolidated financial statement of the Capital Group.

7. AVAILABILITY OF DATA AND DECLARATIONS RECEIVED

The Management Board of the Parent Company made available all financial statements of consolidated companies, consolidation documents, information, as well as other documentation requested during the audit, and presented all explanations necessary to formulate our opinion on the consolidated financial statement.

On 24 April 2007, the Management Board of the Parent Company submitted a written declaration confirming that the audited financial statement is complete, reliable and accurate, and that no events occurred between the balance sheet date and the audit completion date which might have had any significant impact on the Capital Group's financial standing and assets but have not been presented in the audited financial statement. In this declaration, the Board of Directors of the Parent Company reconfirmed its responsibility for the audited consolidated financial statement.

8. CONSOLIDATED BALANCE SHEET

ASSETS (in PLN '000)	31.12.2006	31.12.2005	31.12.2004
FIXED ASSETS	217 143	195 431	136 852
Tangible fixed assets (Property, Plant & Equipment)	193 834	175 138	116 603
Intangible assets	13 473	14 436	13 644
Long-term investments	903	876	894
Long-term receivables	250	187	472
Long-term prepaid expenses	8 678	4 794	5237
CURRENT ASSETS	318 831	239 305	174 605
Inventories	232 781	171 566	131 776
Short-term receivables	50 471	37 653	74 547
Short-term investments	327 19	27 482	15 571
Short-term prepaid expenses	3 360	2 604	2 712
TOTAL ASSETS:	535 974	434 736	311 457

LIABILITIES (in PLN '000)	31.12.2006	31.12.2005	31.12.2004
EQUITY	273 285	232 450	190 819
Equity of shareholders of the parent company	273 285	232 450	190 819
Minority interests	0	0	0
LIABILITIES AND PROVISIONS FOR LIABILITIES	262 689	202 286	120 638
Provisions for liabilities	5 889	4 948	2 749
Long-term payables	11 009	11 038	2 349
Short-term payables	244 354	185 288	114 410
Accruals and deferred income	1 437	1 012	1 130
TOTAL LIABILITIES:	535 974	434 736	311 457

9. CONSOLIDATED PROFIT AND LOSS ACCOUNT

REVENUES AND EXPENSES (in PLN '000)	2006	2005	2004
Revenues from sales	815 135	685 851	546 289
Operating expenses	737 740	625 110	490 472
Profit (loss) on sales	57 395	60 741	55 817
Other operating revenues	4 814	6 029	7 332
Other operating expenses	10 556	7 981	10 491
Operating profit (loss)	51 653	58 789	52 657
Financial revenues (expenses)	6 506	691	5 231
Other profits (losses) from investments	7 617	7 375	3 217
Profit (loss) before tax	50 542	52 105	52 671
Net profit (loss) from continued operations	41 023	40 053	42 156
Net profit (loss):	41 023	40 053	42 156
- of shareholders of the parent company	41 023	40 053	42 156
- of minority shareholders	0	0	0

10. BASIC FINANCIAL DATA AND FINANCIAL RATIOS

Presented below are selected financial data and ratios for 2004, 2005, and 2006, describing the financial standing of the Capital Group in this period. All financial ratios were calculated based on data presented in consolidated financial statements of the Capital Group for financial years ended 31 December 2006 and 31 December 2005.

Ratio	Calculation formula	Amount		
		2006	2005	2004
revenues from sales (in PLN '000)		815 135	685 851	546 289
net financial result (in PLN '000)		41 023	40 053	42 156
equity (in PLN '000)		273 285	232 450	190 819
total assets (in PLN '000)		535 974	434 736	311 457
return on assets (ROA) (%)	net financial result / closing balance total assets	8%	9%	14%
return on equity (ROE) (%)	net financial result / closing balance equity	18%	21%	28%
gross profit margin (%)	result on sales / revenues from sales of goods and products	7%	9%	10%
liquidity ratio I (current ratio)	total current assets * / short-term payables *	1.30	1.29	1.53
liquidity ratio II (quick ratio)	cash / short-term payables *	0.12	0.15	0.14
receivables turnover ratio (days in receivables)	trade receivables** x 365 days / revenues from sales of goods and products	16.23	14.27	7.11
payables turnover ratio (days in payables)	trade payables x 365 days / (value of goods and materials sold + manufacturing cost of products sold)	104.45	56.74	x
inventory turnover ratio (days in inventory)	inventories x 365 days / (value of goods and materials sold + manufacturing cost of products sold)	231.99	173.81	93.35
leverage ratio	equity + long-term provisions + long-term payables + long-term accrued liabilities / total liabilities	0.54	0.57	0.63
debt ratio	(total liabilities - equity) / total liabilities	49%	47%	39%
Inflation ratios:				
annual average (%)		1.0	2.1	3.5
December to December (%)		1.4	0.7	4.4

* trade receivables/payables with maturity dates over 12 months excluded.

11. COMMENTS TO FINANCIAL RATIOS

The above ratios indicate the following trends:

In 2004-2006, return on assets (ROA) and return on equity (ROE) were on the decrease. It resulted mainly from the increase in assets and equity in the analysed period.

Reduction of gross profit margin in 2006 compared to the previous years was caused mainly by the higher increase in operating expenses vs. the increase in net revenues from sales in 2004-2006.

Receivables and payables turnover ratios increased steadily in the past three years. The relatively significant changes in 2006 vs. 2005 were recorded for the inventory and payables turnover ratios.

In 2004-2006, the Company's structure of financing was stable. The leverage ratio in the analysed period was 58% on average.

12. GOING CONCERN

In Note 6 of the Introduction to the audited consolidated financial statement of the Capital Group for the financial year ended 31 December 2006, the Management Board of the Parent Company informed that the consolidated financial statement was drawn up based on the assumption that the Capital Group shall remain a going concern in the foreseeable future and that its business is not restricted to a considerable extent.

During our audit, we identified no circumstances which could lead us to the conclusion that the Parent Company might not remain a going concern within 12 months from the balance sheet date, i.e. 31 December 2006, due to any voluntary or forced discontinuation of operations or significant limitation of its business.

13. FINANCIAL YEAR

Financial statements of all Capital Group companies, underlying the consolidated financial statement, were drawn up as at 31 December 2006 and cover financial data for the reporting period from 1 January 2006 to 31 December 2006.

14. ACCOUNTING PRINCIPLES (POLICY) AND METHODS OF PRESENTATION OF FINANCIAL DATA

In section 9 of the Introduction to the consolidated financial statement drawn up for the financial year ended 31 December 2006, the Management Board of the Parent Company presented the accounting principles (policy) and methods of presentation of financial data of the Capital Group. No changes were introduced to the accounting principles (policy) and methods of presentation of financial data of the Capital Group in the reporting period.

15. GOODWILL ON CONSOLIDATION AND GOODWILL WRITE-OFFS

Goodwill on consolidation resulting from acquisitions of subsidiaries made before 2005 was immaterial, and therefore was written off entirely in the period when control was taken over. In the analysed period, no new companies were acquired by the Capital Group. In the entire period, the Parent Company remained the owner of 100% share in the equity of all subsidiaries in the Capital Group. As a result, no goodwill on consolidation or its write-offs are presented in the consolidated financial statement.

16. EQUITY

Equity presented in the consolidated financial statement drawn up as at 31 December 2006 is consistent with the consolidation documents. Financial data referring to equity is presented in Note 13.8 to the consolidated financial statement.

17. MINORITY INTERESTS

No minority interests were presented as at 31 December 2006.

18. CONSOLIDATION ADJUSTMENTS AND NON-CONSOLIDATION

Non-consolidated data of consolidated Capital Group companies:

- intercompany payables and receivables,
- intercompany revenues and expenses,
- results not realised by consolidated companies and recognized under their assets,

are in line with consolidation documents.

19. SALE OF SHARES IN A RELATED PARTY

In the financial year ended 31 December 2006, no shares in related parties were sold by the Capital Group.

20. COMPLETENESS AND ACCURACY OF CONSOLIDATION DOCUMENTS

During the audit, we concluded that consolidation documents are complete and accurate in all material aspects and satisfy all requirements defined for consolidation documents. This applies in particular to consolidation adjustments and non-consolidated items.

21. STRUCTURE OF ASSETS AND LIABILITIES IN THE CONSOLIDATED BALANCE SHEET

The structure of assets and liabilities of the Capital Group is presented in the consolidated financial statement drawn up for the fiscal year ended 31 December 2006. Data presented in the consolidated financial statement is consistent with the consolidation documents.

22. ITEMS INFLUENCING THE CAPITAL GROUP'S FINANCIAL RESULT

Items influencing the financial result generated by the Capital Group are described in the audited consolidated financial statement drawn up for the fiscal year ended 31 December 2006. Data presented in the consolidated financial statement is consistent with the consolidation documents.

23. NOTES TO THE FINANCIAL STATEMENT

In all material aspects, Notes to the consolidated financial statement drawn up for the fiscal year ended 31 December 2006 have been drawn up in compliance with the accounting principles (policy) set forth in the International Accounting Standards, International Financial Reporting Standards, and related interpretations published in the form of Regulations of the European Commission, and in matters not covered by these Standards – as per the Accounting Act and its implementing provisions.

24. REPORT ON THE CAPITAL GROUP'S OPERATIONS

We have analysed the report on the Capital Group's operations for the fiscal year ended 31 December 2006, prepared by the Management Board of the Parent Company. Information presented in this report, originally disclosed in the audited consolidated financial statement for the fiscal year ended 31 December 2006, is consistent with this statement. In all material aspects, report on the Capital Group's operations is in compliance with requirements of Art. 49 paragraph 2 of the Accounting Act and provisions of the Ordinance by the Minister of Finance of 19 October 2005 on current and interim information provided by issuers of securities.

This Report contains 13 pages.

Jan Letkiewicz

Certified Auditor

no. 9530/7106

Cecylia Pol

President of the Board of Directors

HLB Frąckowiak i Wspólnicy Sp. z o.o.

Poznań, pl. Wiosny Ludów 2

entity authorised to audit financial statements,

entered in the register of auditors certified to audit financial statements, entry no. 238

Certified Auditor no. 5282/782