LPP S.A.

MANAGEMENT BOARD'S REPORT
ON THE COMPANY'S BUSINESS IN 2003

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

LPP S.A. is a company involved in the design and distribution of clothing in Poland and in Central and Eastern Europe. The Company also takes certain actions to create the clothing brand.
Clothing is the sole object of the Company's business. Each product is marketed under one of the following trade marks, most important of these being Reserved, Henderson, and Promo Stars.
All trade marks are registered and owned exclusively by the Company.
Designs of clothing are prepared in the design office located at the Company's registered office in Gdańsk, and then passed on to the purchasing department to outsource production in co-operation with production sites in Poland and abroad. Production in China is managed by the Company's trading office in Shanghai. Products sold by the Company are mainly clothing for teenagers, and include jackets, overcoats, sweaters, sweatshirts, trousers, dresses, tops, shirts, and underwear, as well as hats, scarves, gloves, etc.

The Company also generates minor revenues from the sales of services (mainly lease of facilities in the Company-owned building and lease of transport vehicles, as well as merchandising services in hypermarkets).

Source of revenues	2003		2002		Change
	in PLN '000	share in sales volume %	in PLN '000	share in sales volume %	%
Sales of trading goods	374 494	99.38	259 327	99..12	44.41
Sales of services	2 329	0.62	2 307	0.88	9.54
Total	376 823	100.00	261 634	100.00	44.03

The product range structure is constantly evolving, as the Company's offer is increasingly extended by new products – both within the existing product groups as well as new product types. The Company records revenues in individual channels of distribution which often correspond to individual clothing labels.

Presented below are revenues from sales generated in individual channels of distribution and their share in total sales volume:

Channel of distribution	**2003**		**2002**		**Change**
	in PLN '000	**share in sales volume %**	**in PLN '000**	**share in sales volume %**	**%**
Reserved brand stores	241 280	64.43	128 100	49.40	88.35
Promotional clothing	18 288	4.88	14 565	5.62	25.56
Wholesale outlets	12 634	3.37	14 435	5.57	-12.48

Branches	9 384	2.51	10 692	4.12	-12.23
Hypermarkets	34 343	9.17	45 309	17.47	-24.20
Export	34 913	9.32	23 040	8.88	51.53
Direct sales (door-to-door)	23 654	6.32	23 186	8.94	2.01
Total	374 494	100.00	259 327	100.00	44.41

* including sales of the Reserved clothing to foreign subsidiaries – PLN 17,695,000.

The Reserved brand store network, whose development is still in progress, is currently the key channel of distribution which guarantees the growth of the Company.

2. Information on the changes in market outlets (both local and foreign) and change in sources of supply of production materials, goods and services, indicating the dependence on one or several customers and suppliers; customers / suppliers with at least 10% share in total revenues from sales – their name, share in sales or supply, and formal relations with the Issuer

The customers of LPP S.A. are based both in Poland and abroad.

Over 9% of the Company's sales are targeted at foreign markets. Approx. 50% of export sales are targeted at LPP S.A. subsidiaries based in Latvia, Lithuania, Estonia, Ukraine, the Czech Republic, and Hungary, building Reserved brand stores networks in their respective area. Key export customers unrelated to the Company are companies from Russia, Ukraine, Slovakia, the Czech Republic, Estonia, Latvia and Lithuania.

As the Company uses various channels of distribution, there is no record of revenues from sales based on the country's geographical structure. In its internal records, the Company differentiates between local and export sales, and introduces categorisation in terms of the channels of distribution.

Presented below are sales of goods in 2003, divided into local and foreign markets against the results from previous year:

Type of sales	2003		2002		Change
	in PLN '000	share in sales volume %	in PLN '000	share in sales volume %	%
Local	339 581	90.68	236 287	91.12	43.72
Export	34 913	9.32	23 040	8.88	51.53
Total	374 494	100.00	259 327	100.00	44.41

Presented below are the main directions of LPP S.A. export (the table presents target countries, not the countries where the importer's office is based):

Country	2003		2002	
	export value in PLN ‘000	share in export %	export value in PLN ‘000	share in export %
the Czech Republic	6 800	19.48	2374	10.30
Russia	9 410	26.95	10096	43.82
Slovakia	1 773	5.08	2000	8.68
Hungary	3 219	9.22	555	2.41
Ukraine	3 129	8.96	1590	6.90
Lithuania	2 250	6.44	1269	5.51
Estonia	3 246	9.30	2194	9.52
Latvia	4 517	12.94	2109	9.15
Slovenia	-	-	98	0.43
Croatia	386	1.10	680	2.95
Belarus	91	0.26	56	0.24
Cyprus	92	0.27	-	-
Total	**34 913**	**100**	**23 040**	**100**

The Issuer’s dependence on suppliers

The Company is not dependent on any supplier.
LPP S.A. production companies – subcontractors are mainly based in China. Purchase made in China represented 84% of total purchase volume. Additionally, the Company purchased goods from Polish producers (approx. 9%), from Turkey (approx. 3%) and from India (approx. 3%). Purchasing volumes did not exceed 10% of sales for any of the suppliers.
The Company concluded framework agreements, determining general terms and condition of co-operation. Individual products are manufactured for the Company on the basis of detailed contracts, concluded separately for each individual delivery.

The Issuer’s dependence on customers

The Company is not dependent on any customer. Share of none of the customers exceeds 10% of the total sales volume.

3. Basic economic and financial figures published in the annual financial statement, including in particular description of factors and events, including extraordinary events, influencing the Issuer’s business and the Issuer’s profits / losses during the fiscal year.

The basic factor influencing the Issuer’s business is the adopted and gradually fine-tuned business model, based on the adaptation of product to the customers’ requirements and stimulating the customers’ needs by creating brands with good recognition. Detailed description of internal and external factors is presented in item 14.

Key accomplishments of the Company in 2003:

1) Revenues from sales: PLN 376.8 M (up by 44% against 2002),
2) Net profit: over PLN 34.3 M (up by 85% against the previous year),

3) Second public issue of shares (190 000 shares) enthusiastically welcomed by investors,
4) Return on Equity: 29.4%,
5) Increase in revenues from sales of the Reserved clothing by over 90% to the level of PLN 241M, which goes to prove that the strategy of the brand stores network development is successful,
6) Increase in the total commercial area of all brand stores (70 brand stores as at the end of 2003) – almost 32 000 square metres in Poland and 8000 square metres abroad 17 brand stores)
7) Successful implementation of the first modules specialist software supporting the management of retail sales, and continuing implementation of other modules.

Presented below are basic economic and financial figures and their dynamics against the previous year.

figure	**FY 2003 in PLN '000**	**FY 2002 in PLN '000**	**Change %**
net revenues from sales	376 824	261 634	44.03
gross profit on sales	181 868	120 485	50.95
profit on sales	39 452	29 408	34.15
operating profit	43 911	28 636	53.34
profit on business operations	46 011	25 003	84.03
net profit	34 280	18 556	84.74
shareholders' equity	158 281	74 694	111.91
payables:	84 633	92 127	-8.13
long-term payables	5 326	7 344	-27.48
short-term payables:	75 056	87 744	-14.46
bank credits	10 122	38 911	- 74.00
due to suppliers	56 307	40 133	40.30
fixed assets	81 072	48 020	68.83
current assets	161 842	118 801	36.23
inventory	87 092	76 603	13.69
short-term receivables	40 028	34 304	16.69

The increase in revenues from sales by 44% and the increase in gross profit on sales by 51% indicate that Company's core business is successful. Such substantial increase in sales revenues was achieved through the development of the brand stores network. Moreover, the increase in share of this particular channel of distribution made it possible to improve the average annual gross profit margin from 46.05% in 2002 to 48.26% in 2003.

Growth of profit on sales was 34%, which was lower than the growth of sales, because of higher growth of costs of sales (by 62%). This phenomenon is related to intensive development of the network of brand stores and development of sales departments, as well as increased marketing expenditure in proportion to the increase in sales of the Reserved brand.

The balance of other operating expenses and revenues was positive and totalled PLN 4 459 000. The key factor influencing this item was the return of the VAT tax for the ZPCHR (workplace for the disabled - protected labour company).
Operating profit totalled PLN 43 911 000, and the operating profit margin amounted to 11.65% (in 2002: PLN 28 636 000 and 10.95%, respectively).

Profit on business operations was up by 84% against the previous year. In addition, this figure was positively influenced by the balance of financial revenues and expenses (PLN 2 100 000), depending to a considerable extent on the decrease in value of interest due under bank credits and positive FX rate discrepancies balance).
Net profit generated in 2003 totalled PLN 34 280 000, up by nearly 85% against the previous year. The net resulting profit margin amounted to 9.10% against 7.09% in the previous year.

In 2002, shareholders' equity of LPP S.A was up by nearly 112% as a result of new issue of shares and transfer of the total amount of profit to capital.

Balance of long-term payables was down by 27% (repayment in line with the adopted schedule).

Balance of short-term payables was down by over 14%, as a result of considerable decrease in bank credits. Trade payables increased by 40%, owing to the increasing volume of purchased goods in order to meet adopted sales targets in 2004.
As in previous years, large amounts of goods included in inventory were still en route to Poland as at 31st December 2003.

Substantial increase in fixed assets (by 69%) is a result of large investments, mainly capital expenditure in brand stores.

During the reporting period, the value of current assets increased by 36% against the end of 2003, which was mainly caused by the increase in short-term financial assets (loans granted to related parties and cash) and the balance of inventory and receivables.

The volume of inventory gives the Company a competitive edge, and although it is relatively high, it corresponds to the scale of the Company's business. Larger inventory volumes in warehouses are necessary as the share of the Reserved brand stores in total sales is increasing and requires appropriate amount of products displayed in the stores. The advantage of this channel of distribution is that inventory is exchanged directly for cash, which improves financial liquidity of the Issuer, generating considerable cash flows.

The value of profitability ratios, presented in the table below, results directly from the factors described above which influence the value of each category of profit.
The Company's profitability is on the increase, despite rapid increase in sales, assets and shareholders' equity.
Profitability ratios presented in the table have been calculated as follows:

a) gross profit margin – gross profit on sales divided by revenues from sales of goods and services,
b) operating profit margin – operating profit divided by revenues from sales of goods and services,
c) net profit margin – net profit divided by revenues from sales of goods and services,
d) Return on Assets – net profit divided by average assets during the fiscal year,
e) Return on Equity – net profit divided by average equity during the fiscal year.

ratio	FY 2003 %	FY 2002 %	Change %
gross profit margin on sales	48.26	46.05	4.80
operating profit margin	11.65	10.95	6.39
net profit margin (Return on Sales, ROS)	9.10	7.09	28.21
Return on Assets (ROA)	16.73	12.87	30.00
Return on Equity (ROE)	29.42	28.34	3.81

Liquidity ratios, presented in the table below, were up against the previous year. Also, inventory, receivables and payables turnover improved against 2002.

Liquidity ratios have been calculated as follows:

a) current ratio - current assets divided by the balance of short-term liabilities,
b) quick ratio - current assets less inventory divided by the balance of short-term liabilities,
c) inventory turnover ratio (days) – average inventory divided by costs of goods and products sold and multiplied by the number of days in a given period,
d) receivables turnover ratio (days) – average receivables divided by sales revenues and multiplied by the number of days in a given period,
e) trade payables turnover ratio (days) – average trade payables divided by the costs of goods and products sold and multiplied by the number of days in a given period,

ratio	FY 2003	FY 2002	Change %
liquidity ratio I (current ratio)	2.16	1.44	50.00
liquidity ratio II (quick ratio)	1.00	0.51	96.08
days in inventory	153	181	-15.47
days in receivables	34	39	-12.82
days in trade payables	91	94	-3.19

The increase in fixed asset to equity ratio is a result of considerable increase in shareholders' equity. Values of other debt ratios are higher against the previous year as a result of decrease or limited increase in debt in comparison with the increase in balance sheet total.
Debt 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 debt divided by balance sheet total (including provisions for liabilities),
c) short-term debt – short-term debt divided by balance sheet total,
d) long-term debt – long-term debt divided by balance sheet total.

ratio	FY 2003 %	FY 2002 %	Change %
fixed assets to equity ratio	195	155	25.81
total debt	34.85	54.28	-35.80
short-term debt	30.90	49.60	-37.70
long-term debt	2.19	4.40	-50.23

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

In 2003, the Company concluded the following major contracts:

- Insurance agreement of 17th October 2003 with supplementary documents, concluded with Allianz Polska S.A. in Warsaw. The insurance policy includes the insurance of all LPP S.A. assets, including brand stores.
- Contract for insurance within a specified guaranteed limit concluded with TUiR 'Warta' S.A. on 19th February 2003. The guaranteed limit amounts to PLN 20 million.
- In 2003, the Company concluded 25 new contracts of lease with distributors of commercial areas. The contracts concern the lease of premises where the Reserved and Cropp clothing is sold.
- In 2003, the company concluded new credit agreements and annexes amending credit agreements already in place. Details on these contracts have been published in current reports. Notes 19D and 20C present a list of credit agreements as at 31st December 2003.

The Company has no knowledge of any contract concluded by and between its Shareholders that would influence its operations.

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

As at 31st December 2002, LPP S.A. was the holding company for twenty limited liability companies with a share of 100%, and a key investor in one company with a 50% share.

In 2003, the following significant changes in the organisational and capital relations of LPP S.A were introduced:

1. LPP S.A. formed UAB LPP company seated in Vilnius, Lithuania, and took over 100% of its shares. Details on the company establishment were published in current report no. 9/2003 of 11th February 2003.

2. LPP S.A. formed LPP Ukraine, a subsidiary of LPP S.A. seated in Ukraine, and took over 100% of its shares. Details on the company establishment were published in current report no. 60/2003 of 7th August 2003.

3. LPP S.A. sold its shares in Obgain Management Ltd. company seated in Cyprus (50% of shares were held by LPP S.A.). Details on the sale of shares were published in current report no. 61/2003 of 29th September 2003.

As a result of the changes in the capital relations described above, as at 31st December 2003, LPP S.A. was a holding company for twenty four limited liability companies with a share of 100%.
Establishing new entities or acquisition of shares in existing companies is part of the Issuer's plans for the Reserved stores network development both in Poland and abroad.

Focusing on the development of retail stores network, the Company outlaid capital expenditure related to leased premises, but did not purchase these immovables.
The total capital expenditure in the Reserved brand stores opened in 2003 was approx. PLN 29 million.
Outlays and prepayments for intangible assets incurred in 2003 (ca PLN 6.9 million) was mainly licences for computer programmes and their implementation.
Most of the aforementioned investments were financed from the revenue generated by the issue of series H shares.

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

The total value of transactions concluded with related parties exceeded the equivalent of 500,000 EURO in the following cases:

a. Transactions concluded with LPP Retail Czech Republic s.r.o. company, valued in total at PLN 8 551 079.54, including:

- loan instalments paid in the amount of PLN 2 149 960.00. Loans granted by LPP S.A. to LPP Retail Czech Republic company for financing capital investments in Reserved Stores built in the Czech Republic,
- sale of goods to LPP Retail Czech Republic company to be resold in Reserved brand stores in the Czech Republic, The total value of the foregoing sales was PLN 6 401 119.54 in 2003.

b. sale of goods to LPP Retail Latvia LTD subsidiary to be resold in Reserved brand stores in Latvia. The total value of the foregoing sales was PLN 3 535 612.63 in 2003.

c. sale of goods to LPP Retail Estonia UAB subsidiary for resale in Reserved Stores in Estonia. The total value of the foregoing sales was PLN 2 785 882.07 in 2003.

d. Transactions concluded with LPP Hungary Kft. subsidiary, valued in total at PLN 4 738 321.00, including:

- loan instalments paid in the amount of PLN 1 667 985.00. Loans granted by LPP S.A. to LPP Hungary Kft. company are for financing capital investments in Reserved brand stores built in Hungary,
- sale of goods to LPP Hungary Kft. Company for resale in Reserved brand stores in Hungary,. The total value of the foregoing sales in 2003 was PLN 3 070 336.00.

All transactions within the capital group were concluded on market terms.

7. **Information on credits and loans incurred, specifying their maturity and guaranties granted (to the issuer).**

Information on credits incurred as at 31st December 2003 and their maturity is presented in note 19C and 20B to the financial statement.
In 2003, the Company used bank guarantees to secure the payment of rent for the area rented to run brand stores. These bank guaranties were used to secure payments arising under contracts of lease, both when the Company and related parties or other entities act as lessees under terms and provisions of these contracts.
The total value of bank guarantees granted upon the request and on the responsibility of LPP as at 31st December 2003 amounted to PLN 20 414 thousand, of which:

- the value of guarantees issued for securing lease contracts concluded by LPP was PLN 6 047 thousand,
- the value of guarantees issued for securing lease contracts concluded by its related parties was PLN 12 500 thousand,
- the value of guarantees issued for securing lease contracts concluded by third parties was PLN 1 867 thousand,

Last year, no loans were incurred by and no guaranties were granted to the Company.

8. **Information on loans granted, specifying their maturity and guaranties granted (by the issuer), including loans and guarantees granted to the issuer's related parties.**

In 2003, the Company granted the following loans:

a. <u>Loans granted to related parties:</u>

Name of the related party	Loan amount	Agreement date	Loan maturity
LPP Retail Czech Republic Ltd..	EUR 250 000	8th Jan 2003	31st Dec 2004
LPP Retail Czech Republic Ltd..	EUR 250 000	14th May 2003	30th June 2005
UAB LPP, Lithuania	USD250 000	11th Feb 2003	31st Dec 2004
LPP Hungary Ltd.	EUR 250 000	14th Jan 2003	30th June 2004
LPP Hungary Ltd.	EUR 100 000	14th Mar 2003	31st Dec 2004

b. <u>Loans granted to third parties:</u>

- loan granted to a trading partner on 3rd March 2003 in the amount of PLN 550 thousand. Maturity date: 31st March 2008.

In the reporting period, the Company issued the following guarantees:
1. guarantees for a promissory note of Cargosped Składy Celne Sp. z o.o. The LPP S.A. guarantees secure the receivables of STU Ergo Hestia S.A under contracts of guarantee of customs debt repayment concluded with Cargosped Składy Celne Sp. z o.o. in connection with the warehousing of LPP S.A. goods. As at 31st December 2003, the value of the off-balance payables due under issued guarantees amounted to PLN 7 million.
2. civil law guarantee issued to a trading partner for securing a lease agreement, guaranteed amount as at 31st December 2003 – PLN 143 thousand.
3. promissory note guarantee issued to a subcontractor for securing its trade payables, guaranteed amount – PLN 90 thousand.

9. Appropriation of inflows from the issue of securities.

In 2003, a second public share issue was organised. 190 000 series H shares were taken hold of. The company revenue (net) exceeded PLN 49 million. According to issue objectives, the revenue was channelled for the expansion of the Reserved stores network. Most of the revenue has already been spent. The total capital expenditure for the Reserved Stores opened in 2003 was PLN 29 million. While expanding the Reserved network, capital investments were also made in the IT system. In 2003, servers and software were acquired; implementation works were also in progress. Total cost of this objective will be PLN 13.5 million. Bearing in mind the investment plans for 2004, the appropriation of inflows from the issue is to be completed soon.

10. Explanation of discrepancies between financial results presented in the annual financial report and forecast results for a given fiscal year published earlier, if at least one of the items in the financial result differs considerably from the item presented in the last forecast published.

Results generated by LPP S.A. did not differ significantly from the published forecast.

11. Assessment (and its justification) of financial assets management, with particular focus on the ability to meet the terms and conditions of all incurred liabilities, and identification of possible threats and actions taken or to be taken by the issuer to counter these threats

The company has no arrears in the payment of its liabilities towards the State and trading partners. Cash and concluded credit agreements ensure that future liabilities will be met with no problems. As in the previous year, co-operation with customers requiring extended payment terms has been limited. The receivables turnover was improved by increasing the share of revenue generated by LPP own stores in the total revenue structure. The direction of changes in the sales structure will be the same.

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

Company investment plans will be completed using Company's own resources, inflows from the 2003 share issue and potential bank credits. As there are considerable investments planned for 2004 to guarantee further company development, the Management Board will address a request to the shareholders to increase Company's shareholders' equity by the total amount of profit generated in 2003.

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

According to the Management Board, there were no extraordinary events influencing the financial result in 2003.

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

Description of key risks and threats and their probability.

Basic objectives of the Company influencing its future market position include:
a) creation of the network of brand stores in Poland and Central and Eastern Europe,
b) creation of a strong clothing label (Reserved),
c) creation and opening of a new sales network offering CROPP clothing targeted at another customer group.
The following internal and external factors (presenting both opportunities and threats) will have an impact on the completion of Issuer's strategic tasks and goals:

Internal factors

a) The Company's market strategy

LPP S.A. is a design and distribution company, creating its brand while outsourcing many activities (co-operation with third parties). The Company does not have its own production capacity and does not plan to develop its own production sites. As a result, the goal of all investments is to increase the Company's trading potential, maintain its competitive edge on the market, develop its own network of distribution, create good image of LPP S.A. on the clothing market, gain customers and ensure their loyalty to the Company and its products.

b) LPP S.A. market position

Marketing activities, focusing primarily on the Reserved label, resulted in the considerable increase of brand recognition by the target consumer group. The growth of LPP S.A. in terms of its revenues from sales and its profits is ever increasing.

c) Extending and renewing offers presented to the Company's customers

Products marketed by LPP S.A. meet the expectations of target customers groups related to individual channels of distribution. Keeping in touch with the changing preferences of customers, LPP S.A. launches new product groups to the market each year, trying to get ahead of the market needs. In certain cases, especially in the case of the Reserved brand stores, LPP S.A. tries to create its own style, based on global trends. As further increase in revenues must be ensured, a new clothing label (CROPP) will be marketed in 2004 and targeted at customers aged 13-20. CROPP clothing will be sold in another network of brand stores located mainly in shopping malls in large cities (independent of the Reserved network).

External factors

a) Change and growth of the clothing retail market in Poland

In reaction to changes of the retail clothing market, LPP S.A. consistently implements its plan of development of an extensive network of brand stores, selling clothing under widely recognized label.

b) Relatively low costs of entering the clothing market

Relatively low barriers faced by companies entering the clothing market may result in the increase of competition. This will require more intensive actions on the part of LPP S.A. in order to maintain its market position and secure further development, especially the development of an extensive network of brand stores. What differentiates this channel of distribution from others is the development of the

Company's own network to protect LPP S.A. against competitors with lower level of financial assets; it results from the fact that development of a network of stores and creation of a strong brand require considerable investment outlays.

c) Poland's membership in the European Union

When Poland becomes the member state of the European Union and its borders are open to competition, our market may become attractive for large foreign companies from the same market sector. LPP S.A. is trying to minimise this threat by developing extensive retail network of the Company's brand stores in the best locations in Poland; good location of brand stores is one of the basic requirements on the retail market for any company to be successful.
Poland's membership in the EU may trigger certain administrative restrictions, resulting in the increase in prices of clothing produced in China. These restrictions will be in effect until the end of 2004. The Company has taken appropriate actions to minimise the impact of trading restrictions on its results generated in 2004.

d) FX rates

The Company's results may be influenced by FX rates of two foreign currencies: EURO and USD.
Current analyses of USD exchange rates (the Company settles its accounts with its suppliers and export customers in this currency) and factors which may have an impact on USD exchange rate suggest possible increase in prices of purchased goods. However, reasonable forecasts of USD exchange rate in 2004, based on the opinion expressed by major financial institutions justify the assumption that this will not pose any serious problems for LPP S.A. business.
Specific nature of the Company's business makes it possible to partly transfer the increase in USD exchange rate to end customers – selling price of a given product is calculated on the "last minute" basis – before it is introduced to the market.
Another area where costs may be affected by USD and especially EURO exchange rates are the contracts of lease of commercial premises. Exchange rates of these currencies determine the amount of rent payable by the Company under contracts of lease of most stores where the Reserved clothing is sold (and where CROPP clothing is to be sold in the future). Current monthly value of these payables in PLN equals approx. EURO 500k and USD 100k.
Presented forecast of the Company's results for 2004 was prepared based on (but not limited to) the assumption that average annual USD exchange rate is PLN 3.90 and EURO exchange rate is PLN 4.80. Major devaluation of PLN against USD and EURO may pose a threat for the presented forecast profit.
The Company is monitoring changes on the foreign currency market and is considering the employment of hedging instruments against FX risk.

e) General economic situation in Poland. The level of spending on consumer goods, including clothing.

Results generated by the Company in 2003 indicate beyond any doubt that the general economic situation in Poland (drop in spending on certain consumer goods) did not affect the Issuer's business. The Company's focus is to ensure that products offered to customers are attractive; as a result, the Company's customer base is considerable, even if the financial standing of customers is generally considered weak.

f) Changes in fashion – influencing attractiveness of the products

Attractiveness of the product and resulting market position of clothing companies depend heavily on proper operation of the design department. Taken this factor into consideration, the Company focuses especially on the skills of designers and their market insight. The design team is composed of several dozens of persons working in team, whose efforts result in clothing lines appreciated by the customers. Another key factor is continuous monitoring of global trends, for instance by participation in major international exhibitions.

Perspectives for development of the Issuer's business

As in previous years, the Company assumer further development of the Reserved brand stores network – both in Poland and abroad. As at the end of 2003, there were 70 brand stores in Poland (including several franchised stores) with the total commercial area of approx. 32 000 square metres, and 18 brand stores abroad with the total area of approx. 8000 square metres. Plans for 2004 assume opening of new stores and increase in the total commercial area of the Reserved brand stores up to over 40 000 square metres, and doubling the total commercial area abroad.
In March 2003, the first CROPP brand stores are to be opened, with the offer targeted at younger customers than Reserved target group. By the end of 2004, around 25 CROPP stores are to be opened with the total area of approx. 7000 square metres.
Forecasts for the LPP capital croup assume revenues at the level of PLN 550M and profit of PLN 43M.

15. Changes of basic principles of management of the Issuer's business and its capital group

No major changes in the Company's management principles were introduced in 2003.

16. Changes in the composition of the Issuer's Management and Supervisory Board during the last fiscal year

On 27th June 2003, the term of office of the following members of LPP S.A. Supervisory Board expired: Jerzy Lubianiec, Maciej Krzyżanowski, Wojciech Olejniczak, Grzegorz Słupski and Sławomir Łoboda.
As a result, the General Meeting of Shareholders of LPP S.A. elected Supervisory Board members for the next term of office. The following persons were appointed members of the Supervisory Board:

Jerzy Lubianiec – Chairman of the Supervisory Board
Wojciech Olejniczak
Grzegorz Słupski
Krzysztof Fąferek
Jacek Siwicki

On 27th June 2003, also the term of office of the Company Management Board expired. As a result, the Supervisory Board of LPP S.A. appointed members of the Management Board for the next term of office (5 years); the composition of the management Board has not changed and is as follows:

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.

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

As at the date of submission of the annual report for FY 2003, members of the Company's Management and Supervisory Board hold the following shares:

No.	Function in the Company's authorities	Total number of shares	Shares nominal value in PLN
1.	President of the Management Board	281 428	562 856
2.	Vice President of the Management Board	5 377	10 754
3.	Vice President of the Management Board	5 042	10 084
4.	Vice President of the Management Board	3 759	7 518
5.	Chairman of the Supervisory Board	279 327	558 654

No shares in the Company's related parties are held by these persons.

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

As at the date of submission of the annual report for FY 2003, shareholders with at least 5% of votes at the Issuer's General Meeting of Shareholders are:

No.	Shareholder	Number of shares	Share in share capital %	Number of votes at the GM	Share in the total vote at the GM in %
1.	Marek Piechocki	281 428	16.52	981 428	31.62
2.	Jerzy Lubianiec	279 327	16.40	979 327	31.56
3.	Grangefont Ltd	350 000	20.55	350 000	11.28
4.	Polish Enterprise Fund IV, L.P.	215 000	12.62	215 000	6.93

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

Change in the present structure of share ownership may take place as a result of the execution of the agreement for underwriting of 56 700 F series shares concluded with Capital Operations Centre in Bank Handlowy w Warszawie S.A. in Warsaw on 21st September 2000.

In the subsequent years of the implementation of the executive share option scheme, the Company's Supervisory Board specifies the number of shares which may be acquired in a given year and identifies eligible persons.
As at the date of submission of the annual report, 5 400 shares included in the share executive option scheme have not been taken hold of.

`

Marek Piechocki

President of the Management Board

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